Political Economy: Capitalism

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Chapter 1

THE SUBJECT-MATTER OF POLITICAL ECONOMY

Economic relations are the basis of all social life. This truth, revealed by Marx and Engels, has found confirmation throughout the history of society and has penetrated the consciousness of a significant part of humanity. Anyone who wishes to understand correctly the essence of the phenomena taking place in society and to assess its real development prospects or the fate of any particular social system, turns first of all to the theories and conclusions of economic science. Study of political economy provides a rigorous scientific answer to what are the roads of further development of human society.

Marxist-Leninist political economy is one of the most important scientific foundations of the programme of the working class in its struggle against capitalism. Once the working class comes to power, the role of economic science grows, acquiring direct, daily, practical significance in the building of the new society. Political economy not only investigates the general laws and perspectives of the development of the socialist system, but also makes clear which actual mechanism must be set in motion in order to solve pressing practical problems.

In the documents of the Communist Party of the Soviet Union and the other Marxist-Leninist parties, it is often emphasised that the theses and conclusions of economic theory must be taken into account in practical matters. The economic policies of these parties are worked out on the basis of knowledge and application of the objective laws revealed by Marxist-Leninist political economy.

The documents of the CPSU and the decisions of its congresses have a deep, theoretical foundation, as is clearly confirmed by those of the 25th Congress of the CPSU.

1. THE BEGINNINGS OF POLITICAL ECONOMY AND ITS DEVELOPMENT INTO AN INDEPENDENT SCIENCE

The Beginnings of Political Economy

The rudiments of economic science had already developed in antiquity, but the thinkers of those times had not yet singled out economic phenomena from the sum total of social phenomena. Political economy became an independent science in the seventeenth century during the bourgeoisie's struggle against feudalism. Its pioneers were bourgeois economists; only later did it acquire its true scientific development as the political economy of the working class.

The term "political economy" as such was first used by the French economist Antoine de Montchrestien (1575-1621) in a work entitled *Traité de l'économie politique.* The true scientific definition of the subject-matter of political economy was the result of long development. At first bourgeois economists saw the main field of their research as the *processes of commodity and money circulation,* believing that it was from just this sphere of economic life that the wealth of society came.

Soon, however, the experience of the bourgeoisie and their struggle with the feudals for economic and political supremacy suggested to their ideologists that the *decisive sphere of economics was production.* The bourgeoisie became convinced that complete victory over feudal elements could only be ensured through development and mastery of production. Bourgeois ideologists more and more abandoned treating circulation as the main source of wealth and began to see it in production. This opened the way to the development of scientific political economy.

The founders of bourgeois political economy, Adam Smith and David Ricardo, the direct predecessors of Karl Marx in political economy, took the production of material wealth as

their subject. In so doing they made an immense step forward in the development of political economy, but it was still far from a true science. The classical writers of bourgeois political economy were unable to disclose the essence of production as a social phenomenon or to analyse the economic laws of the capitalist system with sufficient consistency. They tried to deduce economic laws from the nature and characters of people. Linked with this was their favourite Robinson Crusoe method (so called after Defoe's famous character) by which the business or household of an isolated individual is taken as the starting point of historical development.

Production, however, presupposes the combined interconnected activity of people. The classical bourgeois economists were compelled to recognise the decisive role of cooperation between people in the creation and growth of society's wealth, as is to be seen, for example, in their attaching exceptionally great significance to the division of labour.

Being unable consistently to approach production as a social phenomenon, the classical bourgeois economists were also unable to reveal the historical character of the production process. They considered capitalist production an eternal and natural form of production. In fact, production develops, its technology alters, people's capabilities improve, and the social forms of the interrelationship between them change. Science had to answer what were the laws governing these changes.

Not understanding the social and historical character of production, the classical bourgeois political economists confused social phenomena that reflected the economic relations between people with the relationships between things that operate in the process of production. For example, by capital they understood not the relations between people in the process of production, but the tools or implements used in this process. Any implements of production at any stage in the development of society they considered as capital. Capital was consequently treated as a thing and transformed into an eternal category. This confusion of social relations with things introduced vagueness into the question of the very subject-matter of political economy, because the study of

things as factors in the production process is the field of the technical and natural sciences.

The Revolution in Political Economy Brought About by Marx and Engels

Thus, the bourgeois economists' understanding of the need to analyse production was not enough in itself for a scientific definition of the field of political economy. This definition was given by Karl Marx and Frederick Engels, the founders of truly scientific political economy, who brought about a revolution in economic science.

A precondition of this change was a revolution in philosophy and in understanding of the whole historical process. Application of the method of dialectical and historical materialism, ability to penetrate to the essence of every phenomenon and to reveal the unity and struggle of opposites as the source of self-motion and development, and a historical approach to the analysis of phenomena made it possible to define the true subject-matter of political economy and to reveal the laws of economic life.

Marx and Engels showed that the process of production is a contradictory unity of two aspects, one the relationship between man and nature and his action on it aimed at adapting it to human needs, and the other, relations that people enter into when they act on nature. But to reach this conclusion it was necessary to make a detailed analysis of the *labour process* and all its elements.

The labour process consists in the conscious, purposeful activity of people, directed to modifying and adapting natural objects to their needs. In it they employ means of production. These means of production include the following:

a) *objects of labour*, i.e. the natural substances on which man acts. An object of labour that has already been subjected to human action and is intended for further processing is a raw material;

b) *instruments of labour*, i.e. the things that people place between themselves and the objects of labour and with the help of which they exert a direct effect on the objects of labour. The most important of these are the instruments of

labour. In a broader sense, all material conditions of work, such as land, production buildings, roads, canals and so on, are also instruments of labour.

The objects and instruments of labour together form the *means of production.* The means of production and the labour power of people setting them in motion compose the *productive forces of society.* The main productive force is the labourer or working man. In the labour process, people make conscious use of means of production and human activity is its decisive element. The productive forces reflect the relationship between man and nature. The level of their development characterises the degree of his mastery of the forces of nature.

In the production process people also inevitably enter into certain relations with one another, i.e. enter into *relations of production.* In order to produce, they must have means of production, which may belong to individuals, or to groups of people, or to society as a whole. Whomever the means of production belong to, he also owns what is produced, the product.

Thus, the relations between people in the production process are determined primarily by who owns the means of production. *Ownership of the means of production, i.e. the mode of uniting the worker with the means of production,* underlies the social relations between people at all stages of social development.

Without property or ownership, production is impossible, since production presupposes a specific mode of appropriating its means and its results. Without such appropriation there is no sense in production itself as well as no possibility of it. Therefore, regardless of whether or not there is legal protection of property at a given stage of social development, there are always property relations as real economic relations. A society without ownership of the means of production has never existed and will never exist. The forms of ownership, however, alter with development of the productive forces.

In the early stages of the evolution of human society, the productive forces were extremely primitive and property was correspondingly that of the primitive community. In the struggle with nature, people could only use means of

production collectively. Later, when it became possible to use means of production on an individual basis, by a single person, private property in the means of production emerged.

Later still, the means of production reached such a level of development that the whole production process took on a social character. In these conditions, the need arose to establish social ownership of the means of production.

Thus, it is the development of the means of production that necessitates changes in property relations and the sum total of social relations.

Property relations, in turn, affect the development of the means of production. When the form of ownership corresponds to the given level of development of the productive forces, it facilitates their progress. If property relations are obsolete, they act as a brake on the development of the productive forces.

Marx and Engels were the first in the history of science to demonstrate that there are specific social relations directly connected with the production process. In the sum total of human relationships they distinguished *relations of production* and it is these relations that constitute the *subject-matter of a specific science, political economy.*

The productive forces, and the relations between people apart from those of production, are studied by many sciences, natural, technical and social, but relations of production are studied exclusively by political economy.

Since development of the productive forces plays a decisive role in altering relations of production and since the latter determine the opportunities for making use of productive forces, political economy studies production relations in terms of their interconnection with the development of the productive forces.

People's relations in the production process can take the form of exploitation of some people by others, or of relations of comradely co-operation, or be a transition from the one form to the other. When ownership of the means of production is employed in the interests of appropriating the product of another's labour, then relations of exploitation exist. When the means of production belong to society as a whole and are used in the interests of the whole of society, then there are relations of comradely co-operation and mu-

tual assistance between all working people as the joint owners and co-proprietors of social wealth.

Political economy, in considering production relations in the course of their development, substantiates the inevitability, dictated by history, of the complete victory of the system based on social ownership and relations of comradely co-operation, as those corresponding to the contemporary level of development of productive forces.

2. ASPECTS OF THE RELATIONS OF PRODUCTION. MODE OF PRODUCTION

The relations of production are not confined solely to the relationships between people directly in the production process itself. People produce goods and then distribute, exchange and consume them. All these aspects of social life represent different spheres of the economy, between which there are definite interconnections.

Correlation of Production, Distribution, Exchange and Consumption

Karl Marx showed that relations in the *production process* are definitive for all other spheres of the economy. In fact, how do the relations between production and consumption, for example, take shape? Consumption of the end-product is not limited simply to personal consumption; production is, at the same time, consumption, namely consumption of the means of production. Consequently, productive consumption is also production.

In the production process, each worker develops his own capabilities. This is the main significance of production for the development of the personality. At the same time, labour power is expended, that is consumed, in the production process. Personal consumption is a necessary element in the reproduction of labour power as a productive force, although it should not be viewed from this aspect alone. Thus, there are not only differences between production and consumption, but also something in common.

Production always plays the determining role in social reproduction. Without production there is nothing to consume. Until the product has been created, it cannot be consumed. Production creates the mode of consumption as well as the things consumed. Until the useful properties of fire were discovered, men used the food they obtained in its raw form. The development of production gives rise to new needs and demands. For example, the building of new houses means that various new items of household equipment are required.

Production, consequently, (1) makes consumption possible, (2) determines the mode of consumption, and (3) gives rise to new needs.

At the same time, *consumption alone* makes production necessary. Without it there would be no sense in producing. Consumption is the stimulus for the growth of production. The forms of ownership of the means of production may promote or hinder the growth of consumption. The development of production in the interests of growth of profits under capitalism, for example, inevitably leads to popular consumption lagging behind production, to crises of overproduction and to the development of a form of production that cannot be called either productive or personal consumption, i.e. military production. It is intended for destructive purposes and is solely a means for the imperialist bourgeoisie to extract enormous profits.

The ascendancy of socialist property inevitably leads to steady growth of the consumption of all members of society, since the fullest satisfaction of the material and cultural needs of people is the highest goal of social production under socialism. The propositions in the documents of the 25th Congress of the Communist Party of the Soviet Union in 1976 on accelerating growth of the people's welfare, and the targets for the period of the Tenth Five-Year Plan and the more distant future, reflect the essence of socialist relations and, at the same time, bring out the interdependence of growth of consumption and development of socialist production.

The extent to which the production process provides for the consumption of the masses of the people depends on the social system and on what mode of distribution results from

the given relations of production. Distribution depends completely on the social relations under which production takes place. When the means of production belong to capitalists, distribution of the product takes place in the interests of the capitalists and of growth of their wealth. When the means of production belong to society as a whole, the main task is to distribute the product in such a way as to ensure the welfare and all-round development of all the people. The social forms of production also directly determine the forms of distribution.

Capitalist ownership makes the existence of capitalist profit, capitalist interest and capitalist rent both possible and inevitable. These forms of unearned income are not engendered by capital and land in themselves. Only labour is the true source of profit, interest and rent. Under the conditions of private capitalist property, the means of production, land and labour acquire such historically determined forms as make it possible for the exploiting classes to appropriate the labour of others in the form of profit, interest and rent.

Distribution exerts a reverse effect on production and in some aspects is a direct component of the production process. The distribution both of the instruments of production and of labour by branch of production in essence signifies the beginning of the production process, but the distribution itself depends on the relations in the production process and on who owns the means of production.

The *distribution* of articles of personal consumption is also an important factor directly affecting production and acting either as a stimulus or as a brake on its development. The experience of building socialism, for example, convincingly confirms that the quantity of material wealth distributed for personal consumption and the way it is distributed play an essential role in raising productivity of labour. Here, too, however, the degree and nature of the effect of the distribution of material wealth on production is connected with specific forms of ownership.

The free workers of socialist society are the collective owners of the means of production. The amount of material wealth distributed for personal consumption depends directly on the level of development of production. Improvement of living conditions is at the same time part both of the pro-

cess of wiping out any substantial distinctions between mental and physical labour and between town and country, and of the all-round development of the individual.

An important link in the process of social reproduction is *exchange*. Any social division of labour presumes many-sided activity and a corresponding need for exchange. Exchange of activity and capabilities belongs to the production process itself. When labour is divided, each member of society gives society his labour in a concrete form (for example, as a turner, a tractor driver, a specific kind of engineer, and so on) and, at the same time, co-operates with other people who are giving their labour in some other concrete form. Without this, there would also be no production process. This type of exchange of activity is determined exclusively by production. Only in the final stage, when the article for personal consumption has already been produced, does exchange to some extent become independent and indifferent as regards production. For example, whether one consumer buys a radio and another a tape-recorder, or *vice versa*, cannot affect the course of production.

Under definite historical conditions, the exchange of products acquires the character of exchange of commodities. Commodity production arises in the early stages of the social division of labour even in the primitive-communal system and attains its highest level of development on the basis of private ownership under capitalism when commodity relations acquire a universal character, even labour power becoming a commodity in bourgeois society.

Commodity-money relations are also preserved in the first phase of communism, in which they are developed in a planned manner on the basis of social ownership of the means of production; but commodity relations under socialism differ in principle from those under private ownership.

Exchange exerts a reverse influence on production. When the market is expanding, new stimuli are created for the development of production. However, inadequate development of the sphere of circulation and low purchasing power of the population act as a serious brake on growth of production.

Thus, production, distribution, exchange and consumption are parts of a single process of social reproduction. Between

them there is a close interconnection, but production plays the dominant and determining role in it.

All aspects of the relations of production are only a manifestation of property relations. Taken together, they give the fullest manifestation of the essence of a given form of ownership. And property relations, as we have seen, depend on the level of development of the productive forces.

Mode of Production. The Class Structure of Society

Unity of the productive forces and of the relations of production defines a *mode of production.* During the development of society, one mode of production gives way to another. History has known the following modes of production: *primitive-communal, slave-owning, feudal, capitalist* and *communist* (the first phase of which is socialism). Each mode of production predetermines the whole structure of society. With private ownership of the means of production, society has a certain class structure, resulting from the existence of given forms of property.

Classes are large groups of people, differing from each other according to their place in the historically determined system of social production, according to their relation to the means of production, according to their role in the social labour and, consequently, according to the mode by which they acquire their share of social wealth and to the size of that share. The difference in the place occupied by classes in social production enables one class to appropriate the labour of another. For example, feudal lords appropriated the labour of serfs, capitalists appropriate the labour of wage workers (here we would draw attention to the common basis of this process of appropriation, although, of course, there are important differences in its forms).

Thus, here there is conflict of interests between the different classes. The appropriation of the labour of one class by another gives rise to antagonism and leads to class struggle.

Since the mode of production develops as a result of the changes that take place in the productive forces, a lack of

correspondence inevitably arises in a system of exploitation between the productive forces that have developed and changed and the existing production relations or the given class structure of society. The necessity arises for a transition to new property relations, to a new social system. The classes interested in maintaining the old forms of property, however, resist this transition to a new social system. Hence the inevitability of revolutionary struggle by the classes interested in changing forms of ownership against the reactionary classes upholding the old forms.

In the course of socialist revolution, the exploiting classes are overthrown and abolished. The radical changes effected in class relations by the socialist revolution lead to class antagonisms being overcome and to all society becoming interested in the elimination of vestiges of class distinctions.

The Categories of Political Economy

The concepts expressing relations of production are the *categories of political economy* and characterise not things, but relations between people. Such categories as, for example, commodity, money, capital, profit, rent, cost, express the different relations existing between people under certain social conditions.

The categories of political economy are not arbitrary ideas, but reflect real, living relations. They therefore cannot be established or substituted at will. Changes in them must reflect changes that occur in reality, in the mode of production.

The categories of political economy, like production relations themselves, have a historical character. In science, one and the same name or term is retained by tradition for different relationships, but this simply means that the names of phenomena must be distinguished from their essence. Wages can serve as an example. Under capitalism, they mean the value of labour power as a commodity. Under socialism, labour power is not a commodity and wages now characterise different social relations, are the value of that part of the necessary product which the working people receive from society for their personal consumption. With the emergence

of new relations of production, new categories also appear. The science has to try and operate with concepts that bring it as close as possible to understanding of the essence of phenomena.

3. CRITIQUE OF DISTORTIONS AND ERRONEOUS INTERPRETATIONS OF THE SUBJECT-MATTER OF POLITICAL ECONOMY

The Failure of Attempts to Substitute Legal, Technical and Other Relations for Production Relations

The immense revolutionary significance of Marxism's discovery of the true basis of the class structure of society has called forth many attempts by the enemies of the working class to refute and distort its doctrine of production relations. Bourgeois scholars began to avoid analysing the sphere of production in every way, shifting their centre of attention to the psychology of "economic man" and reviving the Robinson Crusoe method of analysis.

In order to avoid the fundamental problem, that of ownership of the means of production, they try in every way to substitute other types of relations for production relations. They often, for example, interpret them as *legal relations*, but the law is only a part of the superstructure built on economic relations and reflecting their state.

The substitution of legal relations for relations of production is used for every kind of unscientific conclusion, misinterpreting the actual course of development. Bourgeois authors assert, for example, that radical changes in social relations allegedly can be realised not through revolutionary struggle, but rather be effected by means of a series of legislative acts promulgated by the organs of the bourgeois state itself. It is clear, however, that the bourgeois state, being the instrument of capitalist domination, is not capable of abolishing private property.

Another bourgeois distortion of the relations of production is to *substitute the technical relations* between workers in

the production process (or various other organisational forms) for them. This kind of interpretation is used to try to identify capitalism with socialism.

Technical relations of production are those connected only with the technological aspect of production, for example, the relationship between two workers, one of whom delivers the objects of labour while the other processes them. That type of relationship exists in production of any type, be it capitalist or socialist, but it tells nothing about the actual social relations of production, i.e. about the ownership of the means of production.

Bourgeois economics also deliberately confuses the question of the organisational forms of management. If the direct head of an enterprise is the managing director, they conclude that there is no real difference between capitalist and socialist production, although the managing director of a capitalist enterprise is the appointee of its private owners (and often himself also a major shareholder or partner), while under socialism we have a person appointed by society to run an enterprise in its interests.

Distortion of Scientific Understanding of the Role of Technology in the Life of Society

The new world historical situation, in which competition between the two world systems takes place mainly in the sphere of production, has compelled contemporary bourgeois economics to approach production more realistically. Its significance can no longer be ignored. But in order to refute Marx's theory, bourgeois economics has begun to consider production solely *from the angle of the technology or technique of production*, which alone, allegedly, directly determines the whole social system.

Scientific political economy attaches much importance to technology as a major factor in production. Technology characterises the ability of society to make use of the forces of nature and put them to its service. This ability is embodied in the instruments of labour and the ways they are employed in the production process. But technology does not of itself reveal the essence of the social system. Without

change in the ownership of the means of production, technical development cannot alter social relations either between people or between classes, and cannot change the social system.

In transitional periods quite different social conditions can exist with the same machinery and equipment. It is these social conditions that determine society's actual opportunities for development. When capitalism emerged, handicraft technology, which had developed under feudalism, was still in existence. Socialism arises on the basis of productive forces developed under capitalism. Under socialism, too, the perfecting of technology cannot itself lead to further development of the social system and to the building of communism. For socialism to develop, more than the development of technology is needed. It is also essential to ensure the consolidation and development of socialist relations of production, which is the most important condition for technical progress.

Separation of the Relations of Production from the Productive Forces

Some economists, when defining the subject-matter of political economy, consider the relations of production separately from the productive forces. With this approach production relations become a bare, empty form and one aspect of production is separated from the other.

It should not be forgotten that relations of production are only one aspect of the mode of production, and that they depend on the state of the productive forces and, in turn, affect the development of the latter. The relations of production therefore should not be separated from the productive forces, nor should the determining significance of the productive forces in the development of social production be ignored.

The productive forces are not an independent element in the subject-matter of political economy; they are studied by various other sciences. But their state and use is a question of the greatest significance for political economy. The practical problems of building socialism necessitate study of production relations in their interconnection with the produc-

tive forces and the finding of ways of ensuring the most effective use of the productive forces through the development of socialist relations of production.

The need to resolve practical problems under socialism calls for more concrete and detailed study of the whole social mechanism using the productive forces and of actual forms and methods of management, and for the fullest realisation of the advantages furnished by socialist production relations.

The fact that the subject-matter of political economy is production relations between people does not mean that it can afford to ignore other social phenomena. Political economy looks at the system of production relations and the economic basis of society in its close interaction with the superstructure, i.e. with political, legal, ideological and other phenomena, since they exert an active influence on the actual course of the society's economic development.

4. THE OBJECTIVE LAWS OF ECONOMIC DEVELOPMENT

The Objective Character of Economic Laws

The relations of production must be studied in their development. This is dictated by practical requirements; in order to know how to act, it is necessary to know the direction in which the economy is developing. This development is not a matter of man's will. Independently of his will and consciousness, it obeys definite laws of an objective character. The constantly repeating chain of cause and effect expressing the essential aspects of objective processes represents laws of nature or of the development of society, operating independently of man's will and consciousness.

Economic relations develop in correspondence with their own objective laws. *Economic laws express the essential aspects of the relations of production and their interconnection with the productive forces.* The whole history of the development of human society indicates this. In the course of centuries, one socio-economic formation has been regu-

larly replaced by another. Very different countries, with different geographical, climatic and other natural conditions, in the last analysis, develop in the same direction when they have the same production relations. Certain social conditions bring about one and the same trends and consequences of development. There were feudal economies, for example, in England, Germany, Spain, Russia and many other countries that differed sharply from one another in geographical conditions, national traditions, the character of the people and many other features. Everywhere feudalism, having followed a certain course of development, broke down and was replaced by capitalist relations. This cannot be put down to chance. It is clear that certain conditions of society's material life engender an objective necessity for its development in a definite direction.

The objective character of economic laws, and the fact that they operate independently of man's will and consciousness, is a most important *methodological* problem of political economy. The existence of objective laws provides the basis for science; and the task of science is to reveal how they operate. If there were no such laws, there would be no need for economic science, and what happened in practice would depend entirely on man's will. To deny the objective character of economic laws is to prepare the soil for subjectivism and adventurism in economic policy.

The day-to-day experience of the working class's revolutionary struggle and of the building of socialism and communism shows clearly the immense practical significance of scientific knowledge of the laws of society's development.

Marxist-Leninist economic science, having revealed the inevitability of the contradictions between the productive forces and the relations of production becoming increasingly acute under capitalism, and having shown the historically transitory character of capitalism and the inevitability of its being replaced by socialism, equips people with knowledge of enormous significance for their practical activity. The deeper the need to struggle against capitalism penetrates the consciousness of people, the more rapidly the laws leading capitalism to its downfall take effect.

Knowledge of the objective economic laws acquires special significance under socialism, when they are employed by

society in a conscious and planned way. In order to organise the economy, we have to know the laws of development of socialist and communist society and their essence and specific features at any given stage.

The programmes of Marxist-Leninist Communist and Workers' parties are based on knowledge of objective economic laws; and in their policies and practical activities these parties are guided by genuinely scientific knowledge and set out from the real conditions of society's development.

The Historical Character of Economic Laws

Economic laws have a historical character. Some are common to all stages of the development of human society, and in them appear the interrelations between the general phenomena inherent in all modes of production. For that very reason, however, general laws themselves tell us nothing about how or where a particular social formation will develop at a given stage of its evolution.

The general economic laws, inherent in different modes of production, are the following: the law of correspondence of the relations of production and the character of the productive forces, the law of the growth of labour productivity, and certain others. Their operation depends on the specific conditions of the given socio-economic formation. The law of the growth of labour productivity, for example, operates in all social formations. Under capitalism, however, as Marx showed, this law does not have absolute significance, because the main stimulus of the development of production, its determining aim is the provision of maximum profits for capitalists, which can also be achieved without an increase of labour productivity, for example, by intensifying labour or by reducing wages. It is a different matter under socialism. Under socialism, society is interested in maximum economy of human labour with the aim of all-round development of production and of ensuring the most favourable conditions for growth of the people's well-being. Under socialism, the law of the *steady growth* of productivity operates.

Thus, under different historical conditions, the general economic laws operate in far from the same way. In every social formation, they take their own specific form. There are, however, few general laws.

Apart from general laws, *specific economic laws* operate in every formation, expressing the essence of the production relations of the given mode of production.

In every formation, its own law of motion operates, the *basic economic law* that expresses its most important features and determines its general trend of development. To capitalist property, for example, there corresponds the law of surplus value as the basic law of capitalism. With social ownership of the means of production, another basic law operates. Social ownership subordinates production to the fullest satisfaction of society's needs and to all-round development of its members.

In addition to the basic economic law of a given socio-economic formation several other specific laws operate in it, characterising different aspects of economic relations. Under capitalism, for example, the law of the price of production, the law of capitalist rent, and others operate. Under socialism, specific laws are the law of the planned, proportionate development of production, the law of distribution according to work done, and others.

There are also economic laws that operate only in several formations. Thus, the law of value operates wherever there are commodity relations, but its sphere and specific features depend on the given historical conditions and on the prevailing relations of production. Under socialism, in contrast to capitalism, the law of value is no longer the regulator of the economy as a whole. The forms in which it operates and its role are different than under capitalism. The economy is regulated by the law of the planned, proportionate development, in accordance with the requirements of the basic economic law of socialism.

The laws operating in each given formation of society are a specific system in which they are all interconnected and interact. This is a fact of great practical significance. In taking the operation of the basic economic law of socialism into account, for example, neither must the law of the steady growth of labour productivity be ignored. L. I. Brezhnev

said: "In order to carry out successfully the diverse economic and social tasks facing the country, there is no other way than that of promoting the *rapid growth of labour productivity and achieving a steep rise of efficiency in all areas of social production.*"[1]

Critique of Subjectivist and Fetishist Views of Economic Laws

In socialist society, economic laws are applied deliberately, since it directs its development consciously and in a planned manner. For this reason, some economists have denied the objective character of economic laws. The objective character of economic laws, however, does not depend on how they are manifested. The form in which economic laws manifest themselves must not be confused with their objective essence.

Under capitalism, the objective economic laws operate spontaneously, since private property prevails. With a socialist economy based on social ownership, society has the possibility of directing its development in a conscious manner. That does not mean, however, that objective laws do not operate in it. People are unable to cancel the effect of any particular objective law, just as they cannot jump above the material level of development of the society in which they find themselves. One cannot, for example, "decree" the second phase of communism at will.

Objective economic laws must not be confused with laws adopted by the state. A socialist state can, of course, issue obligatory directives of one kind or another in the sphere of economic life. It can legislate the proportions (balance) between the various elements of the economy, fix prices, lay down the principles for the distribution of products and so on, but even so its acts will only have a positive result if they correspond to objective necessity and objective economic laws.

Some economists maintain that the objective character of

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, Moscow, 1976, p. 52.

the operation of economic laws means that they are spontaneous. Where there is no spontaneity, they say, objective laws cannot operate either. It has now been demonstrated, however, not only in theory but also in practice, that the conscious application of objective laws does not mean their disappearance.

While recognising the objective character of laws, Marxist-Leninists do not, however, make a fetish of them and do not deny the great role of the subjective factor. Once they have understood objective laws, people can use them in order to achieve practicable goals determined by objective conditions.

The operation of the law of universal gravitation certainly does not mean, in fact, that people cannot tear themselves from the Earth. Having cognised the law of gravitation and other physical laws, they fly in aircraft and make flights into outer space and to the Moon. Consequently, they employ knowledge of the law of gravitation for definite practical purposes.

The same may be said about economic laws. Only under socialism, however, can they be used in a planned way by society. If they are not taken into account and their spontaneous operation is relied on, they will operate either destructively or incompletely.

The Soviet state was created by the working people of Russia under the leadership of Lenin, on the basis of deep understanding of objective laws, and its sixty years of existence is evidence of the great power of scientific understanding of social conditions and evidence that Marxist-Leninist science has discovered the actual laws of economic development and has therefore been able to play an active role in abolishing obsolete relations of production and building socialist society.

The Class and Partisan Character of Political Economy

Political economy has a class, partisan character. The fact is that the propositions and conclusions of scientific political economy, which objectively analyses the course of economic

development, can be reduced, in the final count, to this, that capitalism has already outlived itself and is being replaced, in accordance with laws independent of the will of people, by socialist society, which will inevitably be victorious all over the world. These scientifically substantiated propositions fully accord with the interests of the world working class, which is waging a struggle against exploitation and for the building of society on new foundations. Scientific objectivity serves the cause of revolutionary struggle.

In the struggle against feudalism, the classical bourgeois economists to a certain extent truthfully depicted the relations of the capitalist system, but they did not understand capitalism's limitations, considered it eternal and natural, and skated around the class antagonism between the bourgeoisie and the proletariat. But from the moment the working class entered the arena of its own class struggle against capitalism, the ideologists of the bourgeoisie began consciously to avoid scientific analysis of the realities of capitalism. The creation of a whole series of pseudo-scientific theories to confirm the eternal nature of capitalism, extol it in every way and abuse socialism, rather than objective research, was the task bourgeois political economy set itself. As Marx said, the death knell of scientific bourgeois political economy had sounded.

Bourgeois economists can gather much valuable factual material in the world today, can propose practical prescriptions enabling the bourgeoisie to increase its profits, can improve the organisation of production and management of a particular capitalist firm, and can advise imperialist states. Their prescriptions, if one discards their exploitative aspects, can to some extent prove useful to the working class when it becomes the owner of the means of production. But all their theoretical generalisations have nothing in common with genuine science, since they do not start from the objective course of development of society, but are dictated solely by the desire to preserve capitalism, come what may. Only the working class and its revolutionary parties can ensure further development of the science, since the course of history fully coincides with its interests.

Definition of the Subject-Matter of Political Economy

In summing up what we have said, we can conclude that the *subject-matter of political economy* is the relations of production and the laws of their development or, in other words, the laws of the production, exchange, distribution and consumption of material wealth at the various stages of development of human society.

Bourgeois economics does not give a scientific definition of its subject-matter. Usually it defines political economy as the science of the economy. The fact is, however, that the concept of the economy includes both the people who use technology, the objects of labour and the output produced, and the relations between people in the production process. Which of these political economy actually studies is not clear.

Bourgeois economists often say that it studies the relations between man and nature. But that is where the subject-matter proper of political economy disappears, because man's relations with nature are characterised by the state of the productive forces and these are studied by a number of other sciences.

Political economy is also defined as the science of scarce things. This definition is incorrect if only because it is completely divorced from concrete reality. It is not a scarcity of goods that is characteristic of contemporary capitalism, of course, but rather relative overproduction, which leads to enormous unproductive consumption that slows down growth of production, and to militarisation of the economy. A considerable proportion of the resources of capitalist society is used not for production or increasing the people's consumption, but for purposes of destruction. Wealth is only scarce for those who, through the operation of the laws of capitalist economy, are not in a position to acquire it.

The whole history of human society shows that, with the development of social production, one good or another, previously scarce, becomes easily reproducible, which leads to progressive growth of the wealth of society. The main brake on the process is obsolete production relations.

The lack of a correct definition of the subject-matter of

political economy among bourgeois theoreticians is a direct result of modern bourgeois economic theory's devoting all its analysis to defence of the capitalist system, and to its trying to ignore such undesirable categories for it as production relations, classes and class struggle. Without an exact definition of the field of research, however, it is also impossible to draw genuinely scientific conclusions.

The political economy of the working class, created by Karl Marx and Frederick Engels, was developed by V. I. Lenin and raised to a new level corresponding to the conditions of a new historical epoch. The needs of the working class's struggle and of the building of socialism and communism necessitated further development of Marxist-Leninist economic theory, a task creatively met by the Communist Party of the Soviet Union and the other Marxist-Leninist parties.

At the present time, as L. I. Brezhnev stated in the Report to the 25th Congress of the CPSU, "the importance has been steadily growing of scientific research into the cardinal problems of world development and international relations, the revolutionary process, the interaction and unity of its various streams, the relationship between the struggle for democracy and the struggle for socialism, and the contest of forces on the main issue of our day, the issue of war and peace".[1]

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[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 87.

Chapter 2

PRE-CAPITALIST MODES OF PRODUCTION

Study of the pre-capitalist modes of production, i.e. the primitive-communal, slave-owning and feudal systems, is of great theoretical and practical significance. Analysis of them enabled Marx, Engels and Lenin to conclude that the evolution of society is a regular natural historical succession of socio-economic formations that progresses from lower stages of social production to higher ones, from the primitive-communal system to slavery, from slavery to feudalism, from feudalism to capitalism, and finally from capitalism to communism.

The scientific Marxist method in sociology, Lenin wrote, consists in "regarding society as a living organism in a state of constant development.... The scientific value of such an inquiry lies in disclosing the special (historical) laws that regulate the origin, existence, development, and death of a given social organism and its replacement by another and higher organism."[1]

The conclusions of the founders of Marxism-Leninism on the regular development of society have been confirmed by the whole course of social development in the contemporary period, the epoch of the revolutionary transition from capitalism to socialism.

In the capitalist world, alongside the predominant capitalist mode of production, there are numerous remnants of old, pre-capitalist relations. Capitalist exploitation of working

[1] V. I. Lenin, "What the 'Friends of the People' Are and How They Fight the Social-Democrats", *Collected Works*, Vol. 1, pp. 165, 167.

people is often intertwined with vestiges of feudal and even slave exploitation. Study of pre-capitalist modes of production is therefore of great significance for understanding the realities of contemporary capitalism and helps revolutionary parties to develop their strategy and tactics.

1. THE PRIMITIVE-COMMUNAL MODE OF PRODUCTION

The Emergence of Primitive-Communal Society and the Development of Its Productive Forces

Human society had its beginnings in deep antiquity, about three million years ago.[1] Thousands and thousands of years passed before man finally evolved from the animal world and human society emerged. Underlying this extended process was labour. As Engels wrote in "The Part Played by Labour in the Transition from Ape to Man", labour is "the prime basic condition for all human existence, and this to such an extent that, in a sense, we have to say that labour created man himself".[2] The main thing that sets man apart from the animal world is his ability to fashion tools.

Primitive man was extremely dependent on his natural surroundings. Initially, his tools were very primitive, a roughly worked stone or stick. People lived in small groups of a few dozen individuals. Death from hunger, natural disasters or attack by wild animals was common. In such conditions, a communal life was the only possible and absolutely necessary form of existence.

For a long time, primitive man lived mainly by gathering the ready products of nature and by hunting, which was carried out collectively, using the simplest implements. Hunting provided skins for clothing, bone for tools, and meat which had a great effect on the development of the human organism, especially on the development of the brain.

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[1] As the recent discovery (between 1959 and 1972) of the so-called Olduvai culture in East Africa shows.

[2] Karl Marx and Frederick Engels, *Selected Works*, in three volumes, Vol. 3, Moscow, 1973, p. 66.

Of enormous significance in the life of primitive man and in his struggle with nature was discovery of the uses of fire and its application. Fire was used as a defence against cold and predatory animals, and to prepare food and to make tools. Thanks to fire, it became possible for man to spread over a wider area.

As man developed physically and mentally, tools were constantly improved. The epoch of the use of predominantly stone tools lasted for hundreds of thousands of years, and is known as the Stone Age. Later man learned how to fashion tools from metal, initially from copper, then from bronze (an alloy of copper and tin), and later from iron.

An important stage in the development of tools was the invention of the bow and arrow. Hunting with a bow made it possible to obtain more means of subsistence. The development of hunting led to the emergence of primitive stock raising. A further major step in the development of the productive forces of society was the rise of primitive agriculture.

Production Relations in the Primitive-Communal System

The basis of production relations in the primitive-communal system was communal ownership of the means of production. Marx and Engels, the founders of scientific communism, demonstrated scientifically that the history of human society began with communal ownership and that only subsequently did private property develop from it. Their conclusions have been confirmed by the discoveries of the natural sciences. Communal ownership corresponded to the level of development and character of the productive forces of that period. Tools were so primitive that they excluded any possibility of primitive man's battling alone with the forces of nature and predatory animals. "This primitive type of co-operative or collective production," Marx wrote, "was, of course, the result of the weakness of the single, isolated individual and not of socialisation of the means of production."[1]

[1] Marx/Engels, *Werke*, Bd. 19, Berlin, 1962, S. 388.

The labour of primitive man created no surplus over and above the bare necessities of life, i.e. it created no surplus product, and so the possibility of private property, classes and exploitation of man by man was excluded.

The labour activity of men in primitive society was based on simple co-operation. Co-operation was necessary in group hunting of large animals, in the collective working of fields and in other work. A certain development of a natural division of labour took place, i.e. a division of labour depending on sex and age. The specialisation of men in hunting and of women in the gathering of plant foods and in domestic chores led to a certain increase in the productivity of labour.

With the extremely low level of development of the productive forces and the scarcity of the means of subsistence, distribution of the products of labour was on the basis of equal shares for all. Everything gathered or produced was divided equally.

Two periods must be distinguished in the development of primitive-communal society, (a) pre-clan and (b) clan.

The pre-clan period is the epoch when man became differentiated from the world of animals, the period when he lived in hordes. The main forms of productive activity were the gathering of natural produce, hunting and fishing.

The clan period is the epoch during which people lived in large families. The clan was a group of people, in early times consisting of a few dozen individuals, united by blood ties. Several clans constituted a tribe. The main forms of productive activity in this period were primitive stock raising and agriculture.

In the first stage of the clan system, the head of the clan was a woman, which stemmed from the material conditions of society at the time. Women played the main role in labour activity. They gathered plant foods, kept the fire and carried on hoe cultivation, thereby providing a more reliable source of existence for the clan commune than the men's hunting, which was of only subsidiary significance. Kinship was reckoned in the maternal, female line. This was the matriarchal clan or matriarchy. As agriculture and stock raising developed further, men's labour began to play a decisive role in the primitive commune. As a result, the matriarchal clan was replaced by the patriarchal clan or

patriarchy. The predominant position passed to a man, who became the head of the clan community.

The basic economic law of the primitive-communal system was that of providing the members of the primitive commune with the necessary means of subsistence through collective labour, using primitive tools on the basis of joint (communal) ownership of the means of production. The absence of private property, of the division of society into classes and of exploitation of man by man excluded any need for a state.

The Origin of the Social Division of Labour, and of Exchange, Private Property and Classes. The Disintegration and Collapse of the Primitive-Communal System

At a certain stage in the development of the primitive-communal system, particularly with the development of stock raising and agriculture, social division of labour emerged. At first different communities, and then individual members within the commune began to carry out different types of production activity, thereby considerably promoting growth of the productivity of labour. In his *The Origin of the Family, Private Property and the State*, Frederick Engels pointed out that, with the separation of pastoral tribes from the general mass of primitive tribes, the *first major social division of labour* occurred. As a result of it, favourable conditions emerged for increasing output of produce and for the evolution of regular exchange between cattle-raising and farming communities.

Together with agriculture and cattle raising, handicraft production began to develop. Pottery, weaving, and the production of metal tools (wooden ploughs with metal shares, iron axes) and weapons developed. The craft wares of the smith, the armourer, the potter and so on were exchanged with increasing frequency, and the sphere of exchange expanded.

With the appearance of new and better tools, the production relations of the primitive-communal society began not to correspond to the new productive forces. Whereas the

collective labour of dozens of people had previously been needed to work the fields, with the development of tools and the growth of labour productivity, a single family was now in a position to till a piece of land and provide itself with the necessary means of subsistence. While collective labour required common ownership of the means of production, individual labour gave rise to private property.

The origin of private property led to disintegration of the clan system. Persons occupying the position of elder, war chief, or priest in the clan community used their positions for personal gain, taking a significant share of the communal property and becoming ever richer. The mass of the clansmen became impoverished and economically dependent on the rich and noble chiefs.

As the productive forces grew, man began to produce more means of subsistence by his own labour than were needed to maintain him. Surplus labour and surplus product emerged and, consequently, the possibility of their being appropriated by other people. In such conditions, it became advantageous not to kill captives, as had been the practice, but to put them to work, to turn them into slaves.

As property inequality increased, the rich enslaved members of their own community who had fallen into their debt, as well as captives. Thus, the first division of society into *classes* originated—into slave-owners and slaves, and the exploitation of man by man began. The production relations of the primitive-communal system began to disintegrate. Joint labour was replaced by individual labour, common property by private property, and the clan system by class society and the state.

2. THE SLAVE MODE OF PRODUCTION

Further Development of the Productive Forces and the Origin of the Slave Mode of Production

Slavery is the first and crudest form of exploitation of man by man. Underlying the transition of society to the slave-owning system was further growth of productive forces and the development of the social division of labour and of exchange. The transition from stone tools to metal led to

a significant expansion of production and to growth of labour productivity. Agriculture developed, its main branches being land cultivation and stock raising. The crafts grew and became perfected, and as handicraft production developed, each craft was gradually converted from a subsidiary activity to an independent branch of production; groups of people became differentiated in society whose main occupation became crafts. *The second major social division of labour* took place, handicrafts becoming an independent branch of production. Unlike tillers of the soil, craftsmen produced the bulk of their wares not for personal consumption but for exchange. The separation of the crafts from agriculture was therefore a decisive step in the origin of commodity production, i.e. production specifically designed for exchange. And the development of exchange led to the origin of money. The economy in the slave-owning society had a basically subsistence character; the produce of labour was intended mainly for personal consumption rather than the market, but, at the same time, commodity and money relations developed. As a result of growth of internal and external trade, the *third major social division of labour* came about, i.e. the rise of a class of merchants. Crafts and trade became more and more separated from agriculture, and concentrated in special communities situated mainly at the intersections of roads and waterways. So began the formation of towns, the separation of town from country, and the emergence of a state of opposition between them.

On the basis of the expansion of production and exchange, property inequality increased significantly. Money, draught cattle, tools and masses of slaves were concentrated in the hands of the rich. The wealthy became big slave-owners, while the small peasants and craftsmen became poorer and poorer. The poor were compelled to turn to the rich for loans and fell into debt. Usury developed, i.e. the lending of money or goods at high rates of interest. The poor, being unable to repay their debts, were forced to sell their children into slavery and to become slaves themselves. As private property in land originated, it began to be sold and mortgaged. Land became increasingly concentrated in the hands of the rich slave-owners. Initially, slavery was of a patriarchal, domestic nature, and was still not the basic form of

production. The slave was a member, as it were, of a patriarchal family. Later, slave labour became the basis of the existence of society, which was split into two main antagonistic classes, slaves and slave-owners. The slave mode of production took shape. The members of slave-owning society were divided into freemen and slaves. Freemen, in turn, were divided into a class of big landowners, a class of small producers, and priests.

The origin of private property and the splitting of society into classes created the need for a state. The organs of state power promoted the development and consolidation of the production relations of the slave-owning society. The state served the interests of the ruling class, the slave-owners. In their hands, it was an instrument of exploitation, oppression and suppression of the resistance of the broad labouring masses, the slaves and the poor.

Production Relations in the Slave-Owning System

The basis of production relations in the slave-owning system was the slave-owners' complete ownership of the means of production and of slaves. Slaves were forced to work by means of crude physical violence. Slave-owners subdivided the instruments of labour into those gifted with speech (slaves), neighing and lowing (horses and cattle), and inanimate. Non-economic compulsion to work was the sole means of combining slaves and means of production. Slaves were not counted as people. Not only were they exploited, but they were also sold like cattle and killed with impunity. Slaves were forbidden to marry or have families, since the low productivity of slave labour made the natural breeding of slaves unprofitable. The product of slave labour was appropriated by the slave-owner and the slave was allotted only the paltry means of subsistence needed to maintain his vitality.

The development of the slave mode of production increased the demand for slaves, while their rapacious exploitation led to their rapid physical exhaustion and death. It was necessary all the time to make up their numbers. Wars were an important source of supply of new slaves. Not only were prisoners of war driven into slavery, but also a significant

part of the population of the lands, provinces and colonies seized.

In comparison with the primitive-communal system, the slave mode of production opened up broader possibilities for growth of productive forces. Possessing large numbers of slaves, the slave-owning states and individual slave-owners enjoyed the advantages of large-scale production based on simple co-operation of labour, which increased productivity considerably. In Greece, for example, there were large workshops (*ergasterii*). Slave labour was widely used in building and in mining iron, silver and gold. In ancient Rome, slave-owners possessed extensive estates or *latifundia*, where hundreds and thousands of slaves worked.

The use of mass slave labour made it possible to build structures that were beyond the powers of the clan or the community.

Slavery existed for three or four thousand years. On the basis of slave labour, the ancient world achieved significant economic and cultural development. Its main achievements were the development of new branches of agriculture (vegetable and fruit growing); the invention and use of new tools (the plough, the scythe, the wheelbarrow, the loom and the smith's bellows); the mastery of large-scale construction (dams, irrigation systems, roads, ships and whole towns); the improvement of production skills and the development of new trades; the development of science, architecture and the arts.

At the same time, the slave system was unable to create the necessary conditions for any significant technical progress. Slave labour was distinguished by very low productivity. The slaves hated the heavy forced labour and expressed their protest and rebellion by destroying their tools. The techniques of production remained very low. The main tractive force was the physical strength of men and cattle.

The slave system engendered the contradiction between physical and mental labour. Slave-owners disdained work that created material values and led a parasitic way of life. Only a small stratum of the top slave-owners were involved in state affairs, science and art.

The bulk of slave labour and its product was spent unproductively by the slave-owners on satisfying personal fancies,

building luxurious palaces, temples and other edifices. Only an insignificant part was spent on expanding production, which therefore developed extremely slowly.

From the essence of its production relations, the *basic economic law of the slave-owning system* must be defined as the production of surplus product for the slave-owners by means of rapacious exploitation of masses of slaves belonging completely to them.

The Sharpening of Contradictions in the Slave-Owning System and Its Collapse

Marxist-Leninist science considers the slave-owning system as a necessary stage through which a considerable part of humanity has passed in the development of society. Under it, the culture that underlay the further development of civilisation grew up. But the system contained insuperable contradictions within itself.

At a certain stage in the development of slave-owning society, production relations became shackles on development of the productive forces. A period of decline and fall of the system set in.

What were the causes of the collapse of the slave mode of production?

First, production relations ceased to correspond to the character of the productive forces. The rapacious exploitation of slaves undermined the basic productive force of society. Slave-owners with vast numbers of slaves were not interested in improving tools, and the slaves lacked any interest in labour. They frequently destroyed the instruments of production, which hindered the development of technology and the use of improved tools. Physical labour was considered a disgraceful occupation beneath the dignity of a free man. The great masses of the free urban population (*plebs*) did not, therefore, engage in productive labour and lived at the expense of society.

Second, the basis of the military power of the slave-owning states was the small producers–the peasants and artisan craftsmen–from whom the army was recruited. They were also the main payers of taxes. Hit by the competition of

large-scale production based on slave labour and by the ever increasing burden of taxes, however, the free peasants and artisans were being ruined and becoming slaves or lumpen-proletarians. A contributing factor to this was the constant military campaigns, which enriched the slave-owners but impoverished the poor. As a result, the contradictions between free peasants and artisans, on the one hand, and the big landowners, on the other hand, became increasingly sharper and the economic and military power of the slave-owning states was undermined. As their military power weakened, the main source of new slaves–predatory wars and colonial plunder–dried up. The numbers of slaves dropped sharply and their price rose. Deprived of such important economic advantages as large numbers of slaves and cheap slave labour, the slave-owners' *latifundia* and *ergasterii* fell into decline. Under these conditions, the slave-owners began to search for new ways of running their estates; they divided the land into plots and let them to free peasants to till, and later also to slaves, in return for a share of the harvest and the fulfilment of various obligations. So-called *colonates* developed, which served as the embryos of new, feudal relations within slave-owning society.

Third, the cruel exploitation of slaves and ruthless oppression of peoples sharpened the basic class contradiction of slave-owning society, that is to say, the contradiction between slaves and slave-owners. Mass uprisings of slaves undermined the economic and political power of the state and thus created the conditions for its conquest by foreign tribes.

All this was evidence that the slave-owning system had outlived itself. During the last two centuries of the Roman Empire, a general decline of production and trade, and of the towns, set in. Slave revolts became intertwined with the struggle of the exploited small peasants against the big landowners. Invasions by foreign tribes finally undermined the slave-owning system. The internal and external contradictions sharpened to the limit and led to the collapse of the system based on slavery in ancient Rome. In its place came feudalism.

Vestiges of clan and slave relations, however, still exist in the capitalist world to this day, especially in certain

developing countries. In 1962, it was officially announced that slavery had been abolished in Saudi Arabia; but in October 1963, the Aden newspaper *Fatat Ul-Jezirah* reported that the Saudi Arabian Government had issued a decree establishing new prices for slaves, according to which slave-traders could sell male slaves at a price not exceeding 250 pounds sterling each, and female slaves for 350 pounds sterling. The government committed itself to compensate the slave-traders for the difference between the old and the new prices for slaves. The imperialist states strive to use the survivals of clan and tribal relations (so-called tribalism) that still exist in places in order to inflame tribal discord so as to retain and strengthen their power in the countries of Africa, Asia, Oceania, and Latin America that have freed themselves from colonial dependence.

3. THE FEUDAL MODE OF PRODUCTION

The Origins of Feudalism

Feudalism is the second socio-economic formation based on the exploitation of man by man. This mode of production existed in many countries and lasted for several centuries. In Western Europe, the feudal system emerged as a result of the interaction of two processes: (1) the fall of Roman slave-owning society, and (2) the disintegration of the clan system among the conquering tribes.

As mentioned above, the elements of feudalism had already been born in the form of colonates within the womb of slave-owning society. The dependent peasants or *coloni*, allotted land, were obliged to till the land of their lord, to hand over to him a considerable share of the harvest or to pay a definite cash sum, and to fulfil various compulsory obligations. These people having their own husbandries were more interested in their work than were slaves. Consequently, new production relations were engendered owing to the decay of slave-owning society and developed fully under feudalism.

Relations of feudal exploitation also took shape as a result of the disintegration of the clan system among the conquering tribes living in various parts of Europe. The tribes that conquered the Roman Empire took possession of a large part of

its lands. The forests, meadows and pastures remained in the common use of the communities, while the arable land was divided into individual holdings. A broad social stratum of independent small peasants was formed, but they could not maintain their independence for long. With private property in land and other means of production, property inequality between the individual members of the rural commune became more acute. The enriched members of the commune took increasing control of it and seized the lands of the poor. Land became concentrated in the hands of the tribal nobles. Thus, the disintegration of the tribal system gave rise to a class of big landowners, who subordinated the peasant masses to their domain. Military chiefs (who were the biggest landowners) concentrated political power in their own hands and became kings and monarchs. The kings generously granted the lands they had seized to their favourites, obliging them to do military service in return. The lands distributed on these terms were called fiefs and the people who received them—feudal lords. Hence the name of this new social system—feudalism. Much land was received by the Church, which served as a major support of royal power.

The lands granted to feudal lords were worked by the peasants, who were now obliged to fulfil a number of services for their new masters. The process by which peasant lands became the property of feudal lords and by which the peasant masses became serfs took a different course in different countries, but its essence was everywhere the same: the once free peasants had fallen into personal dependence on feudal lords, who seized their lands by force.

Feudalism was a necessary stage in the development of society. Once slavery had outlived itself, further development of the productive forces could only take place on the basis of the labour of a large number of bound peasants, who had a certain independence and interest in their work.

The Relations of Production in Feudal Society

The basis of relations of production in the feudal system was large-scale feudal property in land and the personal dependence of peasants on feudal lords. Unlike a slave, the

serf had his own domestic economy, based on his own labour. All land was the property of the feudal lord; one part he kept as his own estate, or demesne, while the rest he granted to peasants for use, on conditions of bondage. The peasants became tied to the land by law. While enjoying use of the piece of land allotted to him, the peasant was obliged to work for the lord and had no right to quit his holding. Such an economic system inevitably presupposed the personal dependence of the peasant on the landowner, i.e. non-economic coercion. "If the landlord," Lenin wrote, "had not possessed direct power over the person of the peasant, he could not have compelled a man who had a plot of land and ran his own farm to work for him."[1]

The working time of the peasant serf was divided into the necessary and the surplus. During the necessary time, the peasant produced what was needed for his own subsistence and that of his family. During the surplus time, he created surplus product, which was appropriated by the feudal lord. This surplus labour, and often also part of the necessary labour of the peasant serf, was appropriated by the lord in the form of *rent of land.* Three forms of feudal rent existed: labour rent, rent in kind and money rent.

Labour rent predominated in the early stages of the development of feudalism. It took the form of corvée or feudal labour services, by which the peasant worked part of the week, three days, for example, for the lord and the rest of the time worked on his holding. When working on the lord's demesne, the peasant had no interest in increasing the productivity of his labour. The lords therefore employed bailiffs or overseers, who compelled the peasants to work by physical coercion.

As feudal system developed further, labour rent gave way to *rent in kind* or quit rent. With this, the peasant holding land was obliged regularly to deliver agreed quantities of grain, cattle, poultry and other farm produce, and domestic craft articles to the lord of the manor. The serf expended all

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[1] V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, p. 193.

his labour at his own discretion and was more independent, which stimulated, to a certain extent, raising of labour productivity.

In later stages of feudalism, when commodity-money relations became widely developed, *feudal money rent* arose. With this form of rent the peasant gave the lord of the manor not the product itself, but its value realised on the market, in the form of a definite sum of money. Money rent greatly accelerated property differentiation of the peasantry and the emergence of capitalist relations. In many countries, including tsarist Russia, different forms of feudal rent existed simultaneously. In addition to rent of land, the peasants paid the feudal lord fees for the use of mills, smithies and watering places, fees for passage on roads, court fees, market fees and so on. On top of that they paid taxes to the state, local tolls and, in some countries, tithes, or a tenth of the harvest, to the Church.

The lord of the manor's economy was basically one of subsistence, especially in the early stages of the development of feudalism. The needs of the lord and of his family and numerous servants at first were satisfied by what was produced by his demesne and delivered by his quit-rent peasants. The peasant economy was also mainly of a natural or subsistence character.

This combination, over a long period of time, of tillage as the main branch of the economy with domestic crafts, which were of subsidiary importance, was a specific feature of feudalism. Later, with the growth of craft industry in the towns, exchange between town and country gradually developed.

The feudal system had its own particular features in different countries, but the development of the feudal mode of production everywhere followed a general pattern. *The basic economic law of feudalism* consists in the production of surplus product for feudal lords in the form of feudal rent through the exploitation of peasants dependent upon them.

With growth of commodity relations, craft production developed further, became increasingly separated from agricultural production, and concentrated in towns. The urban population consisted mainly of craftsmen and merchants. In

order to protect themselves from exploitation by feudal lords and against their oppression, and also against the competition of rural craftsmen running away to the towns, the urban craftsmen combined in *craft guilds*. As a rule, a guild consisted of craftsmen of one and the same speciality. Only master craftsmen who had a small number of journeymen and apprentices working for them were full members of a guild.

The guilds strictly regulated all the conditions of production and sale of goods, fixing the length of the working day, determining the number of apprentices and journeymen, the quantity and quality of the wares produced, market prices, and so on. Besides, guilds fulfilled the functions of religious, social and military organisations. The trading population of the towns also had their own associations, the *merchants' guilds*.

In their early period, guilds played a positive role, encouraging the development of urban crafts and improvement of the quality of articles. But, as commodity production and exchange expanded, they became a brake on the development of the productive forces.

The basic class contradiction of feudal society was that between feudal lords and peasants. The feudal lords of the manor were the ruling class. They headed the state and composed a single estate, the nobility. Nobles enjoyed wide political and economic privileges. The clergy were also very big landowners and occupied a dominant position alongside the nobility. The peasants, who constituted the main mass of the population under feudalism, were politically an estate without rights. They were completely subordinate to the lords of the manor, who could sell their serfs, subject them to corporal punishment and send them for military service. Lenin noted that in practice "serfdom, especially in Russia where it survived longest of all and assumed the crudest forms, in no way differed from slavery".[1] The peasants waged a relentless struggle against the feudal landlords.

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[1] V. I. Lenin, "The State", *Collected Works*, Vol. 29, p. 476.

Development of the Productive Forces of Feudal Society

Under feudalism, significant progress was achieved in development of the productive forces compared with the slave-owning system. The techniques of agriculture were improved. The iron plough and other metal tools became more common. New branches of arable farming emerged, and viticulture, horticulture and market gardening made significant advances. Stock raising, especially horse breeding, increased and developed.

Craftsmen's tools and methods of processing raw materials also improved. In particular, there was a great change in methods of smelting and working iron: blast furnaces appeared, iron founding emerged and developed, and means of forging iron from pig iron were discovered and subsequently found broad application.

The invention of the compass and of geographical maps produced a real revolution in shipping and navigation. Of no less significance in the development of culture were the invention and spread of paper-making and printing.

The growth of the productive forces in feudal society necessitated the establishment of new production relations and the transition from feudalism to capitalism.

The Emergence of Capitalist Production Relations and the Disintegration and Collapse of the Feudal Mode of Production

During the epoch of feudalism, there was a further development of commodity production. Agricultural produce and urban craft products were increasingly exchanged. Evolution of the social division of labour and growth of production led to a strengthening of economic ties between the various regions of a country and to the formation of national markets. The development of navigation and foreign trade laid the foundations for the formation of a world market.

As a result of the growth of foreign trade and expansion of the world market, craft production with its guild regu-

lation was no longer in a position to satisfy the growing demand for commodities. This greatly accelerated stratification of petty craft producers and the transition to large-scale capitalist production, based on the exploitation of hired labour. In his *The Development of Capitalism in Russia*, Lenin showed that the transition from domestic and handicraft industry to capitalist production in the towns mainly took place in two ways. (1) As the craftsmen became differentiated, a small number of masters grew wealthy and became capitalist entrepreneurs, while the bulk of the master craftsmen, journeymen and apprentices were deprived of the means of production and became wage workers. (2) Merchant capital, in the persons of merchants, more and more subordinated craft industry to itself, ruined it, and converted itself into industrial capital.

At first the merchant had played the role of *middleman* in the exchange of commodities between peasants and craftsmen. Then he became a *buyer*, regularly buying up the wares made by commodity producers and reselling them for profit on more distant markets. He also lent the craftsmen money and materials, obliging them to sell their wares at previously agreed prices. Subordinating impoverished craftsmen to his control, the trader gave out materials to them and required them to make specific articles for a certain payment. Thus, the merchant became an *entrepreneur-distributor*, later he provided the craftsmen not only with raw materials, but also with tools. As a result, craftsmen finally became wage workers and the merchant capitalist an industrialist.

A similar process of disintegration of feudal production relations and development of capitalist ones took place in the village. As commodity production grew, the feudal lords increasingly substituted monetary dues for the peasants' obligations in kind, so increasing feudal oppression. The development of money relations speeded up differentiation of the peasantry into various social groups. The overwhelming majority were impoverished and ruined. But alongside them in the village appeared kulaks or rich peasants and usurers, who exploited their fellow villagers with onerous loans and by buying up their produce and cattle at low prices.

In this way, capitalist production relations took shape in the womb of the feudal system.

The So-Called Primitive Accumulation of Capital

The process by which the capitalist mode of production became established, a process conditioned by the spontaneous operation of objective economic laws, was significantly accelerated by forcible measures during the period of what Marx called the "primitive accumulation of capital".

In Volume I of *Capital*, Marx wrote: "The so-called primitive accumulation ... is nothing else than the historical process of divorcing the producer from the means of production. It appears as primitive, because it forms the prehistoric stage of capital and of the mode of production corresponding with it."[1]

The process of the primitive accumulation of capital took place, in its classical form, in England over a long period from the end of the fifteenth to the middle of the nineteenth century. Primitive accumulation took place in various ways, but primarily through "enclosures", i.e. through the forcible eviction of peasants from the land and their conversion into homeless, propertyless poor. Masses of expropriated peasants flooded the towns and roads of England in search of work and the means of survival. To the advantage of emerging capitalism, the state authorities issued bloody laws against "vagrancy", forcing tens and hundreds of thousands of unfortunate people to work in capitalist manufactures and factories for a pittance under threat of the gallows. The working day was lengthened by legislation, wages were limited, and measures were introduced making it compulsory to work in enterprises. That is how capitalist labour discipline was initially inculcated.

The second aspect of the so-called primitive accumulation was concentration of the large funds needed for the organisation of capitalist enterprises in the hands of a few. The methods of primitive accumulation of funds included, above all, the system of colonial plunder by invading countries, of

[1] Karl Marx, *Capital*, Vol. I, Moscow, 1974, p. 668.

colonial trade and the slave trade, international credit and usury. One of the sources of primitive accumulation was state loans, which, in the final analysis, led to increased taxation of the working people.

The process of primitive accumulation with historical features of one kind and another was completed later in other countries. In Russia, for example, the process of divorcing the producer from the means of production proceeded most intensively with the abolition of serfdom. As a result of the 1861 reform, landowners seized two-thirds of the peasants' land. For a reduced plot of the worst land, the peasant had to make redemption payments and assume other obligations in the landowner's favour. The scale of the payments was calculated on the basis of inflated land prices and came to around 2,000 million gold rubles. Lenin characterised the 1861 "emancipation" of the serfs as mass coercion of the peasants in the interests of the emerging class of capitalists.

The process of so-called primitive accumulation shows the enormous role played by force and coercion in the birth of the capitalist mode of production. Coercion itself cannot, of course, create new relations of production, but it is an important factor in the transition from one mode of production to another.

The apologists of the bourgeoisie try in every way to embellish the process by which the bourgeois system evolved. Capitalism, they claim, arose as a result of the "natural" division of people into the capable, hardworking and thrifty (from whom the capitalists arose) and the incapable, careless and thriftless (who became the proletarians); and they try to prove that the capitalists do the poor great good by providing them with work. The facts absolutely refute such "theories". The development of a mass of people deprived of means of production or any means of subsistence and the accumulation of wealth in the hands of individuals who later became capitalists, was brought about by ruthless force, the history of which, as Marx said, "is written in the annals of mankind in letters of blood and fire".[1]

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[1] Karl Marx, *Capital*, Vol. I, p. 669.

Intensification of Class Antagonisms of the Feudal System and Its Replacement by Capitalism

An important role in shaking the foundations of feudalism and speeding its end was played by peasant uprisings. The struggle of the serfs against the feudal lords went on throughout the epoch of feudalism but became particularly sharp towards its end.

In the fourteenth century, France was wracked by the peasant war that has come down in history as the Jacquerie. In England, at the end of the fourteenth century, there was the peasant revolt headed by Wat Tyler. At the beginning of the sixteenth century, Germany was torn by the peasant war led by Thomas Münzer which was supported by the urban poor. Great uprisings took place in Russia, especially the peasant wars led by Ivan Bolotnikov and Stepan Razin in the seventeenth century and by Emelyan Pugachev in the eighteenth.

The significance of peasant uprisings was that they shook the foundations of feudalism and led to the abolition of serfdom. In the countries of Western Europe, the transition from feudalism to capitalism took place through bourgeois revolutions. The bourgeoisie headed the struggle of the peasants and urban poor against feudal oppression, but used the results of the revolutionary gains in its own class interests. Having seized political power it substituted capitalist for feudal exploitation.

In the place of feudal society came the more progressive society for those times, capitalism. But large landed property and vestiges of serf exploitation of peasants remain in many capitalist countries to this day.

The Communist and Workers' parties of capitalist countries demand the final elimination of all forms of pre-capitalist and capitalist exploitation of the peasantry, and support the peasants' struggle for the abolition of landed property and for the transfer of the land to those who till it.

The General Foundations of the Capitalist Mode of Production

Chapter 3

THE STAGES OF DEVELOPMENT OF CAPITALISM. COMMODITY PRODUCTION. MONEY

1. THE STAGES OF DEVELOPMENT OF CAPITALISM

Capitalism, like the slave and feudal modes of production, is a social system based on private ownership of the means of production and the exploitation of man by man.

The transition from feudalism to capitalism meant a further development of private property, its greater concentration in the hands of a minority, and deprivation of the masses of petty producers of ownership of the means of production and their transformation into people compelled "voluntarily" to sell their labour power to the capitalists in order to obtain the means to live. Open forcible compulsion of the producers of the material wealth to toil for their exploiters and the exploitation of personally bound peasants were replaced by the exploitation of wage labour. The formal equality of capitalists and workers as buyers and sellers concealed the real essence of the relations between them. The forms of exploitation were changed but its essence, appropriation of the unpaid labour of others by the exploiters, remained the same. Capitalist relations of production took shape over a long time in the womb of the feudal system.

In the course of its establishment, capitalism passed through three historical stages: a) *simple capitalist co-operation*, which existed in the form of the workshop within which there was still no division of labour; b) *large-scale manufacture* based on the division of manual work within the workshop; c) capitalist machine industry, the typical form of which is the *factory* or *mill*. Having created its own material and technical basis in the form of large-scale machine industry, capitalism brought about an enormous

growth in the productivity of social labour, defeated feudalism economically and established itself as the dominant mode of production. Underlying this revolution in social life was the industrial revolution that took place in Western Europe in the second half of the eighteenth century and first half of the nineteenth.

Being based on private property, capitalist production could not develop other than in an anarchic form, with constant competition between capitalists for the highest profits. In the course of the competition more and more petty commodity producers and small capitalists are ruined by the big ones, and capital is concentrated in the hands of an ever smaller group of owners, the exploitation of wage labour increases, and all the contradictions of capitalism become more acute. At a certain stage of its development the concentration of production leads inevitably to the situation where a few large enterprises begin to produce the bulk of output, while the role of the mass of small enterprises in production becomes insignificant. A monopoly position is created for a small number of the biggest enterprises. By agreement, the big capitalists form even more powerful corporations which, using their superiority in the manufacture and sale of the most important lines of production, suppress freedom of competition and subordinate the whole capitalist economy to the extraction of monopoly profit. Having established undivided sway over all spheres of economic, social and political life in their countries, the biggest monopolies began to divide the whole world into "spheres of influence". In their pursuit of maximum profit, they constantly strive for economic and political expansion and push their governments towards imperialist seizure of the territory of others. All these developments, taken together, meant that capitalism had entered a new stage, the highest stage of its development, that of *monopoly capitalism* or *imperialism.*

The transition from free competition to monopoly domination took place at the turn of the century. Under imperialism, the economic foundation of society still remains private capitalist property, and the same economic laws operate as were inherent in pre-monopoly capitalism. But in the new stage of development of the capitalist mode of production, many of its laws and categories take on important specific

features and a number of new patterns, trends and contradictions develop that did not previously exist. Under imperialism, the contradiction between the productive forces and production relations becomes much sharper, which causes enormous waste of productive forces in militarisation of the economy, destructive wars and crises, mass unemployment, unbridled growth of parasitic consumption, pollution of the environment and so on. The conflict between the modern productive forces and capitalist production relations, between the social character of production and the private capitalist form of appropriation of its results has led to a deepening of all the other antagonistic contradictions of capitalism and brought it to the brink of doom. The inevitability of the revolutionary replacement of capitalism by socialism, scientifically substantiated by Marx and Engels in the heyday of the bourgeois system, has become the order of the day under imperialism.

Having made a deep analysis of the special features of the new stage of capitalism, Lenin came to the conclusion that imperialism is *not only the highest stage* in the development of the capitalist mode of production, *but also its last, the eve of the socialist revolution.* This brilliant conclusion was soon fully confirmed in the course of historical development. The Great October Socialist Revolution in Russia opened the epoch of transition from capitalism to socialism. For sixty years, the peoples of the USSR, and later of a number of other countries, have been building a new society, fundamentally different from capitalist society. A world socialist system has taken shape and is growing in strength. Since the victory of the October Revolution, capitalism itself has entered a period of general crisis, the historical phase of its decline and final fall. The basic feature of the general crisis of capitalism is the division of the world into two opposing social systems, capitalist and socialist. The crisis is also manifested in the disintegration of imperialism's colonial system, in the struggle of a number of countries now free from colonial dependence to take a non-capitalist path of development, in growing instability in the capitalist economy and aggravation of the uneven development of capitalist countries, and in sharpening of the working people's class struggle against the yoke of the monopolies.

The existence of two world economic systems is making a noticeable impression on the patterns of capitalism and is modifying them further. Monopoly capitalism today differs both from nineteenth-century capitalism, and from that of the beginning of the twentieth century. In striving to adapt itself to the conditions of struggle between the two systems and to the demands of the scientific and technical revolution, it is increasingly adopting the form of state-monopoly capitalism and trying to programme and regulate the economy on a national scale, or even that of a group of countries. But its basis remains, as before, private property relations. State-monopoly regulation, therefore, in the forms and on the scale corresponding to the interests of monopoly capital and directed towards maintaining its domination, is unable to control the spontaneous forces of the capitalist market. Objectively, the development of state-monopoly capitalism has meant further socialisation of production, which leads inevitably, with private capitalist appropriation preserved, in however modified forms, to further deepening of the contradictions of capitalism and prepares material preconditions for socialism.

The Structure of Our Book

The economic laws and patterns of the development of the capitalist mode of production were discovered by Karl Marx, Frederick Engels, and V. I. Lenin. Marx's major work, *Capital*, was devoted to investigation of the laws and economic categories of capitalism, while Lenin gave a scientific analysis of the monopoly stage of capitalism in *Imperialism, the Highest Stage of Capitalism*, which is rightfully considered the logical sequel to *Capital*. The special features of the contemporary stage in the development of monopoly capitalism have been illuminated in the documents of the Communist Party of the Soviet Union and of other Marxist-Leninist parties.

For all the changes that capitalism has undergone, the basic patterns of its development, determined by the essence of capitalist production relations, have been maintained. Therefore, so as to understand the most important features of the

capitalist mode of production as a whole, and to bring out its irreconcilable contradictions, we must first, following Marx's methodology, make an all-round study of free competition capitalism, i.e. of pre-monopoly capitalism. First we must clarify the laws governing capitalist production and then pass to an analysis of those governing the circulation of capital and finally look at the processes of capitalist production, circulation, distribution and consumption in their unity and interaction. This will enable us to comprehend more deeply the essence of capital and surplus value and to reveal the laws and categories that express the concrete forms of their movement. The problems are all dealt with in the first part of our book, "The General Foundations of the Capitalist Mode of Production". In the second part, "Imperialism–Monopoly Capitalism, the Highest Stage of Capitalism", we analyse, first, the laws of development of monopoly capitalism and, second, the effect of these laws in the period of the general crisis of world capitalism.

2. COMMODITY PRODUCTION, THE STARTING POINT AND MOST GENERAL FEATURE OF CAPITALISM

Marx began his investigation of the capitalist mode of production in *Capital* with an analysis of the categories of commodity production, that is, defined briefly, the production of goods for the market, for sale.

In an early work, "On the So-Called Market Question", Lenin described commodity production based on private property as follows: "By commodity production is meant an organisation of social economy in which goods are produced by separate, isolated producers, each specialising in the making of some one product, so that to satisfy the needs of society it is necessary to buy and sell products (which, therefore, become commodities) in the market."[1] From this it follows that the main causes behind the origin and development of commodity production are, first, the process of the social division of labour and, second, the separation of the producers of material wealth as owners.

[1] V. I. Lenin, *Collected Works*, Vol. 1, p. 93.

The Historical Character of Commodity Production

The production of goods for exchange had already evolved during the disintegration of the primitive-communal system and has now existed for six thousand years. It existed in the slave-owning system and under feudalism, and reached its fullest development under capitalism.

Bourgeois economists claim that commodity production is as eternal as human society itself, their aim being to "prove" the eternity of the capitalist system as the most developed form of commodity production. The founders of Marxism-Leninism demonstrated scientifically that, although commodity production has existed in several socio-economic formations, it is not eternal. In the early stages of the primitive-communal system, there was neither commodity production nor exchange. Then people, using tools that belonged to the whole commune, obtained the necessary means of subsistence by joint labour and consumed them jointly, without resorting to exchange. In developed communist society, commodity production will cease to be necessary and will gradually disappear.

The specific features and significance of commodity production in any particular period are determined by the character of the production relations prevailing in that given society. First we must distinguish simple commodity production from capitalist commodity production.

By *simple commodity production* we mean the fashioning of products for the market by peasants and craftsmen, based on petty private property and on the personal labour of the commodity producer and his family. Simple commodity production as a form of production existed in pre-capitalist systems, persisted under capitalism, and also exists in the transition period from capitalism to socialism.

Capitalist production is the highest form of commodity production, based on private property.

Simple and capitalist commodity production are both based on an economic foundation of the same type—private property—and their development therefore has a spontaneous character. But the fact that they are of the same type does not mean that they are identical. They have fundamental differences.

Whereas petty, small-scale commodity production is based on the personal labour of the producer himself and on means of production belonging to him, capitalist production is based on the exploitation of wage labour, the means of production and labour power being separated and requiring the purchase and sale of labour power on the market to bring them together. Consequently, under capitalism, not only do the products of labour become commodities, but also human labour power. "By capitalism," Lenin wrote, "is meant that stage of the development of commodity production at which not only the products of human labour, but human labour-power itself becomes a commodity."[1]

Whereas the production of commodities by peasants and craftsmen was only of subsidiary significance in a subsistence economy under the slave and feudal modes of production, in capitalist society, commodity production becomes the *universal form of the production of material wealth*, all or nearly all the products of labour taking a commodity form and being produced for sale.

With simple commodity production, the product of labour belongs to the producer himself. Under capitalism, the result of workers' labour is completely appropriated by the capitalist. The aim of simple commodity production, in the final analysis, is satisfaction (through exchange) of the needs of the commodity producer. The goal of capitalist production, as will be shown later, is the extraction of profit.

Simple commodity production, consequently, has a *dual character*, it resembles capitalist commodity production and, at the same time, differs from it. This also determines the dual nature of the petty commodity producer himself, the peasant and craftsman; on the one hand, he is a toiler and, on the other, a property owner, a petty bourgeois. As a property owner, under capitalism, the peasant tries to "get on in the world", to make money and become a member of the bourgeoisie. To do that, he has no objection to exploiting a favourable state of the market, or to gaining at the expense of others, including the workers. But as a toiler, just like a worker, he is harshly exploited by capital and has no

[1] V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, p. 93.

prospects except poverty and ruin. The peasant can only free himself from the yoke of capitalist exploitation by revolutionary struggle.

The fundamental interests of the masses of the labouring peasantry coincide with those of the working class, and that is the economic foundation of the alliance of workers and peasants in their struggle against their common enemy, capitalism.

Commodity production persists after the proletariat's achievement of political power and in developed socialist society, but it and all the economic categories connected with it differ fundamentally from the capitalist ones. Its specific features are considered in another book in this series–*Political Economy: Socialism.*

Analysis of Commodity Relations as the Starting Point of the Analysis of Capitalism

The fact that Karl Marx began his investigation of capitalist relations with an analysis of commodity production is of great methodological significance.

First, the dialectical logic of research employed by him in *Capital* calls for study of social phenomena in their development. Historically, capitalism grew out of the simple commodity production existing as a form of production under the feudal system. "Small-scale production," Lenin emphasised, "*engenders* capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale."[1]

Second, capitalism, as was indicated above, is itself commodity production in its most developed form. Exchange of commodities, Lenin said, is "the simplest, most ordinary and fundamental, most common and everyday *relation* of bourgeois (commodity) society".[2] A commodity, to use Lenin's expression, is the simplest economic "cell" from which the whole complex organism of the capitalist mode of produc-

[1] V. I. Lenin, "'Left-Wing' Communism–an Infantile Disorder". *Collected Works*, Vol. 31, p. 24.

[2] V. I. Lenin, "On the Question of Dialectics". *Collected Works*, Vol. 38, p. 360.

tion is built and in which all its antagonistic contradictions are included in embryo. In order, therefore, to reveal the essence of capitalism, its laws and contradictions, it was necessary right from the start to show the economic essence of a commodity and of commodity circulation in general, just as, in order to study a complex organism like the developed body, it is necessary to know the structure of its cells.

Third, since not only the products of labour but also human labour power itself becomes a commodity under capitalism, the social relations between capitalists and workers take on the form of commodity relations. In order to disclose their character and explain the nature of capitalist exploitation, it was necessary, as a preliminary, to look at the most general form in which those relations appear on the surface of society, which explains the great significance of this topic for the political economy of capitalism.

Now let us look at what a commodity is and what its properties are, from the economic point of view.

3. A COMMODITY AND THE LABOUR EMBODIED IN IT

A *commodity* is a product of labour, produced for sale on the market and for exchange. Unlike a product consumed without being sold, a commodity not only satisfies certain of man's needs, but is also something that must be exchanged for something.

The Use Value of a Commodity

The usefulness of a thing, the property by which it satisfies some human want, is called its *use value*. "The nature of such wants, whether ... they spring from the stomach or from fancy," as Marx pointed out, "makes no difference."[1] If it satisfies a human need, it has use value. Any use value is realised in the process of consumption.

Use values can be divided into two basic types according to how they are consumed or used by people:

1) *consumer goods*, i.e. objects satisfying people's needs

[1] Karl Marx, *Capital*, Vol. I, p. 43.

directly as vital material and spiritual necessities of life, for example, foodstuffs, footwear, clothing, housing, domestic appliances and so on;

2) *means of production* or objects satisfying people's needs indirectly that are used to produce the things people need; they include industrial buildings and structures, machinery and equipment, raw and other materials, fuel and electricity.

Products of labour possess the property of satisfying people's needs independently of the socio-economic system. From that angle use value is an eternal category, existing in every society. At the same time, it is a historical category, its historical character being primarily determined by the fact that a thing's useful properties are more and more fully revealed during the historical development of science, technology and production.

From time immemorial, for example, man has used wood as fuel and as a building material, but only as a result of the scientific and technical progress of recent centuries has timber become one of the most universal materials. About 30,000 different useful articles are now made from it. Something of the same sort happened with many minerals like common salt, coal, oil, gas, metals, etc.

In themselves, however, the uses of a thing, its physical, chemical and other properties are studied not by political economy, but by the natural and technical sciences, and in particular by the science of commodities. The property of things that interests political economy in analysing commodity production is that they serve as use values not for their producers, but for other people, that is, that they satisfy a social need, and that, in the conditions of commodity production, use value becomes the bearer of exchange value.

Exchange Value

A product of labour entering consumption via exchange acquires exchange value. "To become a commodity," Engels noted in an addition to *Capital*, "a product must be transferred to another, whom it will serve as a use-value, by means of an exchange."[1] This means that a commodity must not only

[1] Karl Marx, *Capital*, Vol. I, p. 48.

possess the property of satisfying a social need, but also that of being exchanged for another commodity. The property of a commodity to be exchanged in a certain ratio for other commodities is called *exchange value*. Exchange value is primarily the quantitative ratio of exchanged commodities: for example, 1 suit = 3 pairs of shoes.

Commodities with different use values are exchanged. It would be pointless, of course, to exchange a quintal of wheat for a quintal of wheat or a watch for exactly the same kind of watch. But the fact that commodities are equated to each other and exchanged means that different commodities have something in common.

What can there be in common between two quite different commodities? Their use values do not have common properties; on the contrary, their use values are exactly what distinguishes one commodity from another. The use values of grain and cotton, for example, cannot be compared; nevertheless these products are exchanged, which means that they are also equated.

The Value of a Commodity

Underlying the equating of two exchanged commodities is the social labour expended on their production. "If," Marx wrote, "we leave out of consideration the use-value of commodities, they have only one common property left, that of being products of labour."[1] The social labour embodied in a commodity appears as its *value*.

Value is the social content, inherent in all commodities, that allows us to equate them. As use values commodities are qualitatively different, since they satisfy different human needs, but in terms of value they are qualitatively homogeneous, because they represent the expenditure of one and the same general human labour.

There are many useful things that are use values, without possessing value. They include objects or substances that are not the products of human labour, like air, spring water, unmade land, wild fruits, and so on. But an object can only

[1] Ibid., p. 45.

possess value if it has use value. An unwanted thing, no matter how much labour has been expended on producing it, will have no value, since the labour spent on it has proved to be pointless, not recognised by society. The existence of value without use value is impossible; under the conditions of commodity production, use value is the bearer of value. Value is a historical category inherent solely in commodity production. It is a property only of products produced for exchange, i.e. of commodities. Thus, a commodity has a dual nature, being a *unity of use value and value.* Exchange value is the form in which value appears in the market, or the form in which the value of a commodity is expressed.

Concrete and Abstract Labour

The dual nature of a commodity, its value and use value, are explained by the twofold character of the labour of the commodity producer. A commodity, as an object satisfying a specific human want, can only be created by labour in a specific, concrete form. If we compare the labour of two commodity producers, let us say, a peasant and a tailor, then we see that we have before us two qualitatively different sorts of labour. The labour of a peasant is distinguished from the labour of a tailor by the conditions of production, the goal of the labour activity, the instruments and objects of labour employed, the character of the operations fulfilled and, most important, by its result: the peasant raises crops while the tailor sews clothes. Labour spent in a specific useful form and creating use values is called *concrete labour.*

Concrete labour exists under any social form of production and, in this sense, is an eternal category, a condition of the existence of human society. For the production of material wealth man uses natural resources. For this reason, use values as material commodities are, as pointed out by Marx, the result of the combination of two factors: material substratum furnished by nature and concrete labour.

Regardless of the various concrete forms, the labour of commodity producers bears something in common. This is the expenditure of human labour power in general. Marx emphasises that "productive activity, if we leave out of sight

its special form, viz., the useful character of the labour, is nothing but the expenditure of human labour-power ... of human brains, nerves, and muscles".[1]

The labour of the commodity producer, viewed as the expenditure of human labour power in general, regardless of its concrete form, is called *abstract labour*. Abstract labour, however, is not simply the expenditure of human energy in a physiological sense, which exists under every form of economy, but a historically determined form of social labour, inherent only in commodity production.

Expenditure of human nervous and muscular energy becomes abstract labour only when it is the objective basis for equating different labour products in the process of exchanging them, i.e. as a social means of establishing a link between commodity producers. Abstract labour is the source and substance of the value of commodities, which is manifested only through exchange value. It is only on the market that it becomes clear that commodity producers worked for each other and that the labour of each of them presents a part of the sum total or aggregate social labour. Marx calls abstract labour a hidden form of social labour.

Abstract labour, consequently, is a historical form of social labour, in which its social character is manifested only in exchange.

Concrete labour and abstract labour are two aspects of one and the same labour that creates a commodity.

The Contradiction between Private and Social Labour

In commodity production based on private property there is a deep internal contradiction between private and social labour. Private ownership of the means of production divides commodity producers and gives their labour a private character. Each commodity producer works in economic isolation from the others and chooses a particular form of concrete labour, guided only by his own interests. Concrete labour thus takes directly the form of private labour.

[1] Karl Marx, *Capital*, Vol. I, p. 51.

At the same time, the social division of labour makes all commodity producers closely interdependent, makes the labour of each of them a part of the aggregate social labour, and gives it a social character. While the commodity producer is occupied in making a commodity, the social character of his labour remains unobserved and hidden, but it becomes clear as soon as the products come onto the market. There it is discovered whether or not the labour of a given commodity producer is needed by society and whether or not it will receive social recognition. If the commodity does not find a buyer, that means that the given private labour has not been recognised as a part of social labour. It has proved to be not needed by society.

In simple commodity production, the contradiction between private and social labour is the basic one, determining the impoverishment and ruin of the masses of small commodity producers and the enrichment of a small number of proprietors. It has an antagonistic character and is the source of the other contradictions of private commodity production. This contradiction is also inherent in capitalist production.

Regardless of the fact that, in large-scale capitalist enterprises, commodities are manufactured collectively by a large number of wage workers, their labour appears directly as private labour, since production is carried on in the interests of private owners, capitalists, without taking preliminary account of social needs. Here, too, the social character of labour is manifested only when the commodities are realised.

On the surface of society the contradiction between private and social labour is manifested as a contradiction between the use value and value of commodities. It is expressed in the fact that there is objectively an inherent lack of correspondence between production and the needs of society in a commodity economy based on private property. As use values, commodities are not produced for personal consumption, but for other people, to meet the needs of society. Commodity producers must therefore produce use values that can be realised as values, i.e. can be exchanged for other useful objects. But each commodity producer, guided not by the needs of society but by his own personal interests, tries to produce and sell the commodity for which, at a given moment, there is high demand and an advantageous price.

As a result, production hardly ever corresponds to the real needs of society. A surplus of use values finds no market and partially or completely loses its value. The contradiction between the use value and the value of a commodity is seen particularly clearly during economic crises of overproduction, when a mass of use values is destroyed, while millions of people remain without food and shelter, because they do not have the wherewithal to buy these use values.

The Magnitude of Value

Since value is the abstract labour embodied in a commodity, its magnitude is determined by the quantity of labour expended. Different commodity producers, however, expend a different quantity of labour and a different amount of labour time on making one and the same commodity. But these differences have no significance for the market: the same use values will always be valued alike on the market. Value is a social property of a thing and its magnitude is not determined by the individual but by the *socially necessary expenditure of labour and by the socially necessary labour time.* "The labour-time socially necessary," Marx emphasised, "is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time."[1] Normal conditions here means the conditions under which the bulk of commodities of a given type are produced.

If, let us say, the bulk of the shoes put on the market are produced with an expenditure of ten hours of labour per pair, then that is the socially necessary expenditure of labour time, determining the social or market value of this type of commodity.

Whatever the individual producer's actual expenditure of labour on making a pair of shoes of the same quality—eight, twelve or fifteen hours, the market will only recognise an expenditure equal to ten hours. Under such market conditions, those producers will be at an advantage whose individual labour time is lower than that socially necessary, since, in expending, for example, eight hours on making a pair of

[1] Karl Marx, *Capital*, Vol. I, p. 47.

shoes, they will receive in exchange another commodity (of money) to the value of ten hours. The commodity producer who, on the contrary, expends 15 hours on making the same shoes, loses five hours of the labour embodied in each pair, labour that will not be recognised by society.

The Influence of the Productivity and Intensity of Labour on the Magnitude of Value

The socially necessary labour time of a commodity, and that means also the magnitude of its value, alters in accordance with changes in the productiveness of social labour, or the productivity of labour. By the *productivity of labour* we understand the quantity of use values (number of commodities) made by a worker in a unit of time. The productive power of labour, since it is expressed in the quantity of use values, is a characteristic feature of concrete labour.

The productivity of labour depends on many factors. "This productiveness," Marx said, "is determined by various circumstances, amongst others, by the average amount of skill of the workmen, the state of science, and the degree of its practical application, the social organisation of production, the extent and capabilities of the means of production, and by physical conditions."[1] A change in any of these factors entails a change in the productive power of labour. An increase in the productivity of labour means a decrease in the labour time necessary for making any particular commodity and, consequently, a decrease in its value.

Let us assume that, as a result of the introduction of new technology, two pairs of shoes instead of one pair are produced in ten hours of labour time. The mass of value embodied in the two pairs will be equal to ten hours of labour, as before, but the value of one pair will be halved and be only five hours of labour.

"The value of a commodity, therefore, varies directly as the quantity, and inversely as the productiveness, of the labour incorporated in it."[2]

[1] Karl Marx, *Capital*, Vol. I, p. 47.
[2] Ibid., p. 48.

The intensity of labour must be distinguished from its productivity. By *intensity of labour* we mean the expenditure of labour power per unit of time. Intensification of labour, like an increase in its productivity, leads to the creation of larger quantity of use values per unit of time, but the reason for this increase is different in principle. With an increase in productivity, an increase in output is ensured thanks to an improvement in the conditions of production, while, with an increase in the intensity of labour, this result is achieved as a consequence of increased expenditure of human nervous and muscular energy.

Let us return to our example of the production of shoes. If the intensity of labour is doubled, two pairs of shoes can also be made in ten hours of labour time, instead of one pair, but the two pairs of shoes will incorporate a value equal in fact to 20 hours of labour of the previous intensity. The value of each pair will therefore remain equal to ten hours, as before (20:2). More intensive labour is not only expressed in a greater number of products but also creates more value for the same time than less intensive labour.

Thus, as a result of an increase in the productivity of labour, the quantity of use values produced is increased and the value per unit of output reduced, while the mass of value produced remains unchanged. With an increase in the intensity of labour, the quantity of use values is also increased, but the mass of value embodied in them grows, too, and as a result, the value per unit of output remains the same.

Simple and Complex Labour

The magnitude of the value of a commodity is affected not only by productivity and intensity of labour but also by how complex it is. The labour of a jeweller is more skilled than that of a fitter, while the labour of a fitter, in turn, is more skilled than that of a navvy, and so on. The more skilled or complex the labour, the greater is the time and labour needed to train the worker initially and for him to master his trade. This expenditure of labour time is taken into account in the creation of value. It means that workers with different degrees of skill create values of different magnitude

during the same time. An hour of a fitter's labour, for example, cannot be simply equated to an hour of a navvy's labour. To make such a comparison possible, any labour, however complex it may be, must be reduced to simple labour.

Simple labour is unskilled labour that requires minimum initial training of the worker (at the given level of development of production). The reduction of skilled labour to simple takes place not as a result of the conscious activities of people, but spontaneously, during commodity exchange on the market.

Since there is only a quantitative difference between different sorts of labour considered as abstract labour, any amount of skilled labour can be expressed as a certain quantity of simple labour. In other words, any *skilled labour* counts only as simple labour intensified, or rather, as multiplied simple labour. "A commodity," Marx wrote, "may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definite quantity of the latter labour alone."[1]

Thus, a commodity represents a contradictory unity of its two factors, use value and value. This dual nature of a commodity is a result of the twofold character of the labour embodied in it and of the fact that the labour of a commodity producer is at once both concrete and abstract. In contrast to use value, value is not a natural but a social property of things. Only commodities have it. Value itself, moreover, is an expression of the production relations between commodity producers expressed through their commodities.

4. THE DEVELOPMENT OF THE FORMS OF VALUE. THE ORIGIN AND ESSENCE OF MONEY

Exchange Value as the Form of Expression of Value

Value, as the social relation between commodity producers, cannot be discerned directly in the product itself. From whatever angle we regard a pair of shoes, for example, we

[1] Karl Marx, *Capital*, Vol. I, p. 51.

would not be able to see its value. The value of goods can only reveal itself as the relation of one commodity to another, in their being equated through exchange, i.e. through their exchange value. If a suit, for example, is exchanged for three pairs of shoes, this means that they are equal in value, that a suit is worth three pairs of shoes. The expression of the value of a commodity by equating it to another commodity is called the *form of value.*

In a developed commodity society, all commodities express their value in money, but this was not always the case. Before money appeared, the form of value passed through a long course of development. Explanation of the origin and essence of money was one of Marx's contributions to science.

Bourgeois political economy was unable to resolve the problem of the origin and essence of money. Some of its representatives, citing a proposition already advanced by Aristotle, claimed money to be the result of agreement or conscious understanding between people. Others tried to prove that money, as an instrument for measuring the price of commodities, was "established" by state authority. A third group considered gold and silver to be money by nature, irrespective of the character of social relations, and others still saw no essential difference between money and commodities, and so on. Not one of these theories, however, provided a really scientific explanation of the nature of money as an economic category.

In starting to investigate this problem, Marx wrote: "Here, however, a task is set us, the performance of which has never yet even been attempted by *bourgeois* economy, the task of tracing the genesis of this money-form, of developing the expression of value implied in the value-relation of commodities, from its simplest, almost imperceptible outline, to the dazzling money-form. By doing this we shall, at the same time, solve the riddle presented by money."[1]

Marx established that over thousands of years, in the course of the development of exchange, the expression of value took the following forms: elementary or accidental; total or

[1] Ibid., p. 54.

expanded; general, and money. Each of these forms signifies a qualitatively new stage in the development of commodity production and its contradictions.

The Elementary or Accidental Form of Value

The elementary or accidental form of value existed in the first embryonic stages of the social division of labour, when exchange was accidental or random in character. It was expressed simply: X commodity A=Y commodity B or *1 sheep=3 measures of grain.*

Like the other, more developed forms of value, it has two poles: the first commodity, which expresses its value in the other commodity, is in *relative form of value,* while the second commodity, the use value of which serves as the means of expressing the value of the first commodity, functions as equivalent, or appears in *equivalent form.*

The relative and equivalent forms of value are in inseparable unity; they are mutually dependent, and, at the same time, opposing aspects of one and the same expression of value; the relative form of value of any commodity presupposes that another commodity stands opposite it in the form of an equivalent. The value of commodity A is expressed in the ability of commodity B to be directly exchanged for it. "Therefore, when we say that a commodity is in the equivalent form, we express the fact that it is directly exchangeable with other commodities."[1] In the value equation *1 sheep=3 measures of grain,* the sheep plays the active role, expressing its value in terms of grain, while the grain serves as a means of expressing the value of the sheep, affirming, as it were, that general abstract human labour has been expended on the sheep, just as on the grain. The grain, however, which figures as an equivalent, cannot at the same time be in the relative form of value, as it does not express its own value. At this stage of the development of exchange, the role of the equivalent of any one commodity is not yet fixed and the commodities can change positions. Then, in the equation *3 measures of grain=1 sheep,* grain is in the relative form of value and the sheep takes the role of the equiva-

[1] Karl Marx, *Capital,* Vol. I, p. 61.

lent. Analysing each of the poles of the expression of value separately, Marx showed that the relative form primarily expresses the qualitative homogeneity of the commodities exchanged. The equating of such dissimilar commodities becomes possible in the exchange process thanks to their common substance, thanks to the fact that they both represent value and incorporate the same abstract human labour. The relative form of value therefore also shows the quantitative comparability of the commodities exchanged; each commodity taking part in exchange always represents a certain quantity of a given object of consumption and contains a certain quantity of human labour.

No one will exchange the product of a day's labour for the product of an hour's labour of the same qualitative content.

Analysing the equivalent form of value, Marx revealed three peculiarities in it.

First, the value of one commodity is expressed in terms of another commodity, which plays the role of an equivalent, only on condition that the latter has a different use value. It is impossible, for example, to express the value of a fabric in terms of a fabric: 20 metres of chintz=20 metres of chintz is not an expression of value. The commodity fulfilling the role of the equivalent figures in the value equation only as a specific quantity of the given object, i.e. as use value. Marx concluded from this that "the first peculiarity that strikes us, in considering the form of the equivalent, is this: use-value becomes the form of manifestation, the phenomenal form of its opposite, value".[1]

Second, a specific amount of concrete labour is expended on the commodity fulfilling the role of the equivalent; but since, in the act of exchange, the given commodity serves as material for expressing the value of the other commodity, the concrete labour becomes the form in which its opposite, abstract human labour, manifests itself. This is the second peculiarity of the equivalent.

Third, since the product marketed was exchanged for another product, this means that it proved to be useful to and needed by the society. The private labour spent on making

[1] Ibid., p. 62.

it was recognised as part of social labour. The owner of the sheep, in essence, exchanges the product of his own private labour for a fraction of social labour. But that means, in turn, that the private labour embodied in the equivalent commodity–in grain–appears as a direct embodiment of social labour. Hence the third peculiarity of the equivalent, namely, that "the labour of private individuals takes the form of its opposite, labour directly social in its form".[1]

Consequently, even with the elementary or accidental form of value, we are dealing with a very interesting phenomenon. Grain always was and always will be a thing that satisfies a definite human need, but in the act of exchange, it fulfils a specific social function, that of an equivalent, confirming the expenditure of social labour on a sheep and itself appearing directly as a product of social labour.

In considering a commodity and its properties, we spoke of its inherent inner contrast between use value and value. Here we see how this inner contrast finds external expression, appearing through the relationship between two commodities. "Hence the elementary form of value of a commodity," Marx concluded, "is the elementary form in which the contrast contained in that commodity, between use-value and value, becomes apparent."[2]

The Total or Expanded Form of Value

As pastoral tribes became separated from the other masses, i.e. with the first major social division of labour, exchange became more regular. In moving from place to place, nomadic herdsmen often came into contact with other tribes and had opportunities to establish exchange relations with them. Cattle now appeared regularly on the market and were exchanged for other products; some cattle, moreover, began to be raised specifically for exchange, as commodities. The bartered commodities like grain, axes, knives, metals and so on acted as equivalents. The higher stage of development of

[1] Karl Marx, *Capital*, Vol. I, p. 64.
[2] Ibid., p. 67.

exchange gave rise to a new form of value, which we call the total or expanded. It is expressed in the following way:

$$1 \text{ sheep} \begin{cases} = 3 \text{ measures of grain} \\ = 2 \text{ axes} \\ = 6 \text{ yards of linen} \\ = 5 \text{ pounds of copper} \\ \text{and so on.} \end{cases}$$

The General Form of Value

When many products of labour began to be exchanged more or less systematically, complications arose in exchange. For example, the owner of an axe needed grain; the owner of the grain, however, did not need an axe, but wanted some other commodity. In this case, direct exchange could not take place. The greater the number of products appearing on the market, the more difficult their direct exchange and expression of their value became. The very nature of value made it necessary for some one commodity that could act as a direct embodiment of social labour to be singled out as an equivalent. And that is what actually happened. Commodity producers began to exchange their goods for some third commodity, say, a sheep—that was met more frequently on the market and was accepted more readily in exchange than other things. Later, in a second act, the sheep was exchanged for the commodities required.

So direct exchange or barter disappeared, giving place to commodity circulation, i.e. to exchange through a third as intermediary commodity. Gradually the intermediary commodity became a universal equivalent, for which all other commodities were initially exchanged and in which their values were expressed. Under these conditions, the form of value underwent new changes and from the total or expanded form turned into the general form of value.

$$\left.\begin{array}{l} 3 \text{ measures of grain} = \\ 2 \text{ axes} = \\ 6 \text{ yards of linen} = \\ 5 \text{ pounds of copper} = \\ \text{and so on} \end{array}\right\} 1 \text{ sheep.}$$

The Money Form of Value

The next stage in the development of exchange and of the forms of value was associated with the second major social division of labour, i.e. with the separation of handicrafts from agriculture. Handicraft production, in contrast to agriculture and cattle raising, once separated, became predominantly commodity production. The development of handicrafts as a separate branch of the economy not only brought about a sharp increase in commodity exchange, but also considerably extended the territorial boundaries of the market. Under these new conditions, commodities like cattle, furs, shells and fish, which functioned as a universal equivalent on the earlier narrow and local markets, gradually yielded their role to the precious metals.

Metals had also earlier circulated on the market. The development of handicrafts further expanded their mining and use. Metals, especially the noble ones, had a number of advantages for the role of a universal equivalent compared with other commodities, namely, divisibility, homogeneity, good durability and, most important of all, transportability (metals embody much labour in relatively small volume and weight). Thus, the fourth or money form of value developed, a form that differs from the general one in the role of the equivalent being firmly and universally merged with the substance of noble metals and, in the final analysis, with gold.

The money form of value can be expressed as follows:

$$\left.\begin{array}{l} \text{1 sheep} = \\ \text{3 measures of grain} = \\ \text{2 axes} = \\ \text{6 yards of linen} = \\ \text{and so on} \end{array}\right\} \text{2 grams of gold.}$$

Once the money form of value had been established, commodities acquired a price. *Price* is the value of a commodity expressed in money or a monetary expression of value.

The Essence of Money

Having explained the origin of money, Marx brought us close to an understanding of its essence as an economic category. Money did not appear either as a result of conscious agreement between people to introduce its currency or as a result of being decreed by the state. It was the spontaneous result of the development of the contradictions of commodity production and exchange. The property of gold to express the value of all other commodities is not its natural property. Nature, as Marx said, did not create money, just as it did not create the banker. This property was conferred on gold by society and by the development of its economic relations. Gold is used by people as money solely because it is the most suitable material for the purpose. Consequently, *money is a special commodity that was spontaneously singled out from all other commodities to fulfil the function of the universal equivalent.*

The origin of money and of price was a qualitatively new stage in the development of exchange, and of commodity production and its contradictions. Possessing the property of being directly exchangeable for all other commodities, money developed from an intermediary in exchange into a great economic force, the possession of which gave wealth and power.

"The commodity of commodities," Engels wrote in *The Origin of the Family, Private Property and the State,* "which conceals within itself all other commodities, was discovered: the charm that can transform itself at will into anything desirable and desired. Whoever possessed it ruled the world of production. . . ."[1]

With the rise of money, the commodity world was finally split into two opposing parts: on the one hand, the omnipotent equivalent commodity–money; and on the other hand, all other commodities. The first acts as the direct embodiment of social labour and all the others as direct products of private labour. The social character of the labour of the

[1] Karl Marx and Frederick Engels, *Selected Works,* in three volumes, Vol. 3, p. 323.

different private commodity producers is disclosed and recognised only when the products of their labour are exchanged for money.

Since, in a developed commodity economy, commodities are primarily exchanged through the mediation of money, the latter becomes a unique centre in which the paths of the products of labour of totally different commodity producers cross. "The product of the individual producer," Lenin wrote, "destined for consumption by others, can reach the consumer and give the producer the right to receive another social product only after assuming the form of *money*, i.e., after undergoing preliminary social evaluation, both qualitatively and quantitatively."[1]

Two important conclusions characterising the essence of money follow from this. First, money is a historically determined form of economic link between commodity producers inherent in a developed commodity economy; money is not a thing, is not gold, but is the social relations between people, appearing through gold. Second, money serves as a means for spontaneous recording of the quantity and quality of the social labour of commodity producers realised on the market. However much individual labour a producer expends on making a particular commodity, the market records only the price of this commodity, i.e. the sum of money that the commodity producer will receive for it. Being a monetary expression of value, this sum, as a rule, does not coincide quantitatively either with the actual expenditure of labour or with value. Under the influence of the spontaneously altering ratio of the supply and demand the prices of commodities constantly fluctuate around their values.

In a commodity economy based on private property, money serves as an instrument for differentiating commodity producers, enriching some and impoverishing others, as an instrument of the oppression and exploitation of man by man. At a definite stage in the development of society, as will be explained below, it is converted into capital and is employed as a universal means for the exploitation of wage labour. The essence of money is seen most clearly in its functions.

[1] V. I. Lenin, "The Economic Content of Narodism and the Criticism of It in Mr. Struve's Book", *Collected Works*, Vol. 1, p. 407.

5. THE FUNCTIONS OF MONEY

In a developed commodity economy, money, as Marx established, functions as: (1) a measure of value, (2) a medium of commodity circulation, (3) a means of accumulation or hoarding, (4) a means of payment, and (5) world money. The teachings of Marx on the functions of money are a logical extension of his scientific analysis of the development of the forms of value. Each stage in the development of money functions is a new historical stage in the development of commodity production and circulation.

Money as the Measure of Value

The first and most important function of money is that of a measure of value, in which its role as the universal equivalent is directly expressed. *The essence of this function is that money expresses the value of all other commodities.* It is obvious that only a commodity possessing value itself can fulfil such a function. Hence it follows that ultimately only gold always serves as the measure of value.

In order, however, to express the value of a commodity in money, it is not at all necessary to have money on hand as cash. Prices are fixed before commodities are sold; consequently, money fulfils this function *ideally*, as imaginary gold. In this, the commodity producers are guided by previous experience of the production and sale of similar commodities.

The fact that money fulfils its function of a measure of value ideally is of great practical significance, since this makes it possible to use it as a universal unit of account (money of account) in very different economic calculations: in compiling estimates and budgets, computing national income and wealth, evaluating the assets of enterprises and useful things that are not the products of labour and, consequently, do not have value.

When supply and demand correspond, the price of a commodity is determined by the ratio between two magnitudes: the value of the commodity and the value of gold. The smaller the value of the commodity, the lower its price is,

and the greater its value, the higher its price. Conversely, the lower the value of gold, the higher are the prices of all commodities, and the higher the value of gold, the lower the prices of all commodities. Consequently, the prices of commodities in the mass vary in direct proportion to the value of the commodities themselves and in inverse proportion to the value of money.

There have been cases in history when cheapening of gold has led to a sharp increase in the prices of all other products, and "price revolutions" have taken place. For example, the discovery of the rich gold fields in California and Australia in the middle of the last century led to a sharp drop in the value of gold and to a significant increase in the prices of commodities in all countries.

Whereas at the beginning of the eighteenth century only 13 to 15 tons of gold were mined per annum throughout the world, the average increased to 200 tons between 1851 and 1855. At the present time, an average of around 1,300 tons of gold a year are mined in the capitalist world, including 70 to 75 per cent in South Africa and 11 or 12 per cent in Canada.

History indicates that money originally performed its function as a measure of value in units of weight, i. e. in *zolotniks*,[1] ounces, pounds and grams of silver or gold. But this made its use in circulation difficult. Banks, and later state organs, began to set a definite weight of silver or gold as a monetary unit and divide it into aliquot parts.

In the USA, for example, the dollar serves as the monetary unit and is divided into 100 cents. Until the world industrial crisis of 1929-33, it contained 1.5 grams of pure gold. As a result of the devaluation of 1934, its gold content was reduced to 0.889 grams. The current monetary and financial crisis of the world capitalist system, which has become more acute in recent years, brought about further devaluations of the dollar in 1971 and 1973. In 1974, its official gold parity was 0.737 grams, but on the world gold markets it was quoted much lower.

The weight of gold (or silver), accepted as the monetary

[1] *Zolotnik* was a Russian measure of weight of 4.27 grams.–*Ed.*

unit in a country and divided into aliquot parts, we call the *standard of price,* which must not be confused with the function of money as the measure of value. As the measure of value, money expresses the quantity of socially necessary labour embodied in commodities. This is its social function, arising from the economic relations of commodity production. As for the standard of price, it is a technical measure, indicating the quantity of gold contained in the monetary unit and its aliquot parts, irrespective of the value of gold. The standard of price can be deliberately altered by the state, but the movement of real prices of commodities (i. e. as expressed in gold) is regulated by the objective economic law of value.

Since price is the monetary form of the value of commodities, money itself has no price, as otherwise the value of gold would have to be expressed in terms of its own use value; it is, however, expressed in the infinite number of commodities for which gold is exchanged.

The function of money as a measure of value includes within itself the deep contradiction of commodity production based on private property. The constant fluctuations of commodity prices around values occurring as a result of the bitter competition and anarchy of social production, bring about the ruin of the mass of small commodity producers, the enrichment of a handful of big proprietors, and deterioration of the position of the working people.

In conditions of spontaneous commodity production, the process of price formation is based on daily experience of actual exchange transactions, in which money performs yet another function, that of means or medium of circulation.

Money as the Medium of Circulation

With the evolution of money, direct exchange of one commodity for another *(C–C)* gives way to commodity circulation, i.e. to the exchange of commodities through the mediation of money *(C–M–C).* Here money plays the role of an intermediary in the exchange of commodities or, in other words, performs the function of a medium of commodity circulation. To fulfil this function, the money or tokens of

money must be present, because a real exchange of commodities for money is taking place and of money for commodities.

In commodity circulation, the process of exchange takes place in the form of two opposing, yet mutually complementary metamorphoses: sale (*C–M*) and purchase (*M–C*), which are separate, independent acts, and may not coincide either in space or time. Having sold his commodity, the producer is not compelled to buy another immediately. He can put purchase off for a long time and complete it on another market. "No one can sell," Marx wrote, "unless some one else purchases. But no one is forthwith bound to purchase, because he has just sold."[1]

The gap between the acts of purchase and sale, which is connected with the functioning of money as the medium of circulation, embraces the *formal possibility of economic crises*, because, if one commodity owner does not follow up sale with purchase, then another commodity owner will be unable to sell his commodity and, in turn, will not buy the commodity of a third owner, and so on. As a result, there can be overproduction of a number of commodities on the market. In a simple commodity economy, however, this possibility remains formal and cannot happen, since that would require a number of conditions that only take shape in developed capitalist commodity production.

In contrast to commodities which, when sold, are no longer in circulation, money as the medium of circulation remains constantly in this sphere, serving one act of purchase and sale after another. How much money then is necessary for commodity circulation? Since commodities are realised or sold at already established prices and money turns over and over again on the market, passing successively from hand to hand, the amount of money needed for circulation can be expressed by the following formula:

$$\text{amount of money} = \frac{\text{sum total of commodity prices}}{\text{the velocity of money circulation}}.$$

The quantity of money functioning as a medium of circulation is equal to the sum of the prices of commodities, di-

[1] Karl Marx, *Capital*, Vol. I, p. 115.

vided by the velocity of circulation of monetary units of the same denomination (rubles, dollars, francs and so on). With commodity production based on private property, the amount of money in circulation at any given moment is determined by the spontaneous interplay of three factors: a) the quantity of commodities in circulation; b) the movement of their prices; and c) the velocity of money circulation.

In the times when undebased gold money functioned in circulation, the amount on the market always corresponded to requirements, due to the fact that gold, like all other commodities, has value. Any influx of money into circulation was the result of an actual need, arising from the sale of a commodity.

Money functioned in circulation in the form of coins. *Coins* are pieces of monetary metal of standard shape, with a state stamp that confirms their weight and standard. During circulation gold coins gradually became worn, losing part of their metal, but still continued to function on the market equally with new mint coins. So the possibility arose of substituting substandard or token coins for full-value ones. Along with gold coins, token copper and bronze coins began to be put into circulation, coins intended as change for full-value gold coins and for use in minor transactions. The value of this small change was significantly below that of the quantity of gold for which it was a substitute.

The possibility of replacing full-value gold coins in currency by tokens of value arises from the character of money's function as the medium of circulation and, in particular, because it fulfils this function transiently. Being in currency money passes continually from hand to hand. If all commodity producers accept token coins as full-value ones in the purchase and sale of commodities, then each producer can buy with them any commodity of the same value as that he himself made and sold.

This possibility has been exploited by state authorities from early times to debase the coinage, i.e. to release into currency coins of ever decreasing weight with the same face value as before. In Russia, for example, under Tsar Alexei Mikhailovich (seventeenth century), silver rubles began to be minted of half the weight of the previous ones and then, instead of silver rubles, copper ones of the same weight were issued.

It was proclaimed that the copper ruble was equal to a silver one. A surplus of debased money flooded the market with media of circulation, which led to the disappearance of silver coins and to a steep rise in prices. Economic life was disorganised, the revolt known as the "Copper Riot" occurred, and the tsarist government was compelled to abolish copper rubles, buying them back for a kopeck a ruble. The reason for the failure of the tsar's "money-making" was not in the substitution of tokens for full-value coins in their function as the medium of circulation, but the fact that many more copper rubles were issued than were needed to fulfil the above-mentioned function of the silver coinage.

Paper Money

At the end of the seventeenth century, too, the English colony of Massachusetts, during the war with the French colonies (now Canada), put paper money into currency for the first time. Three decades later, in 1716 to 1720, the experiment was repeated in France on a wider scale. While the amount of paper money was small, it functioned in currency on a par with full-value metal coinage, but later, when the state, seduced by this easy way of covering Treasury expenditure, regardless of revenue, issued a surfeit of paper money, it rapidly depreciated in value.

In spite of the first unsuccessful experiments, more and more countries resorted to paper money (in Russia, for the first time in the 1760s). Today it circulates in all countries.

What is paper money? And what are the laws governing its circulation? *Paper money* consists simply of nominal tokens, symbols of value, replacing full-value gold and silver money in their functions as the medium of circulation and means of payment. It is put into circulation by the state authorities at a fixed, legal rate of exchange. Paper money has no value of its own and cannot, therefore, serve as a measure of the value of commodities. This function, even with paper currency, is fulfilled by ideal imaginary gold.

Since paper money develops directly from the currency of metal coinage, the law of its circulation is based entirely on that of gold currency. "A law peculiar to the circulation of

paper money can spring up only from the proportion in which that paper money represents gold. Such a law exists; stated simply, it is as follows: the issue of paper money must not exceed in amount the gold (or silver as the case may be) which would actually circulate if not replaced by symbols."[1]

When paper money is put into circulation in the quantity needed for it to fulfil the functions of gold, it will circulate according to the value of the gold coinage that it replaces. If, however, the issue of paper money exceeds the gold needs of commodity circulation, its purchasing power will begin to fall and the prices of commodities to rise.

Let us assume that the prices of the commodities up for sale in a certain capitalist country total 50,000 million dollars (pounds, francs, marks, etc.), and that each monetary unit makes an average of five transactions in a given period of time. The amount of gold money needed for circulation will be 10,000 million dollars ($50 \times 10^9 : 5 = 10 \times 10^9$). But, let us assume, the government, in order to cover a budget deficit (arising from spending on military orders, maintaining the army and police, paying the salaries of government officials, and so on) issues 20,000 million paper dollars instead of 10,000 million. Each gold dollar will then be represented (or replaced) in circulation not by one paper dollar, but by two.

However much paper money a government issues, a spontaneous increase in market prices will forcibly equate it to the amount of the full-value gold coinage replaced by it. The process by which paper money depreciates as a consequence of having been issued in excess is called *inflation*.

The depreciation of paper money is widely used by the exploiting classes for their own enrichment and for robbing the working people. Inflation manifests itself in a spontaneous, sometimes steep rise in the prices of all commodities and, earliest of all, of articles of prime necessity. Wages (the price of the commodity labour power) as a rule rise much more slowly than the prices of consumer goods and services. As a result, the standard of living of the working people falls, while the profits of the capitalists grow more rapidly.

[1] Karl Marx, *Capital*, Vol. I, p. 128.

Today, the imperialist states make wide use of cash emission (i.e. the issue of paper money) to cover their budget deficits arising mainly from the arms race. This leads to an increase in the amount of paper money in circulation and to a fall in its purchasing power.

Not every price rise, however, let alone wage increases, should be called inflation, as bourgeois economists do. Under modern capitalism, when only symbols of value that are not convertible into gold (i.e. not convertible at an established rate of exchange) function in circulation, prices do not only rise as a result of inflation, i.e. of the issue of paper money in excess of the gold needs of commodity circulation. Price rises are also brought about by a whole series of factors inherent in monopoly capitalism, the main one being, as will be shown in Chapter 16, price increases introduced by the biggest capitalist monopoly undertakings. In the pursuit of super-profits, monopolies screw up the prices of commodities, housing, medical care, and other services, which leads, in the absence of convertibility of the paper money, to a spontaneous lowering of the standard of price, i.e. of the gold content of the national monetary units. In this case, the rise in commodity prices is not the result of the depreciation of money, as is the case with inflation, but the reason for this depreciation. The intertwining and interaction of these two factors–price rises introduced by the monopolies and actual inflation–bring about an increasingly rapid fall in the purchasing power of money in imperialist states and in the developing countries associated with them. Available estimates indicate that the mean annual rate of depreciation for 25 industrially developed countries was 3.7 per cent between 1963 and 1968, 5.7 per cent between 1969 and 1973, and more than 11 per cent in 1974 and 1975. In twelve countries, including the USA, Great Britain, Japan, Italy, and Canada, this rate was sometimes as high as 25-28 per cent. As a result, the purchasing power of the US dollar and the West German mark fell by half between 1950 and 1974; that of the pound sterling and the Italian lire by roughly two-thirds; of the French franc by 70 per cent and of the Japanese yen by more than 75 per cent. In the developing countries, the mean annual depreciation of money stood at 3.6 per cent in 1963-68, 6 per cent in 1968-73 and 18.1 per cent in 1974.

This led to a considerable drop in real wages and salaries, to a fall in the incomes of petty commodity producers and in the profits of non-monopolised enterprises, to greater financial difficulties for pensioners, and so on. In turn, these aggravated the economic, social and political contradictions of the bourgeois system. Disturbance of money circulation, which is an organic flaw in the modern capitalist economy, is a characteristic sign of the increasing instability and decay of capitalism in the period of its general crisis.

Money as a Means of Hoarding

When commodity circulation is interrupted at its first metamorphosis, i.e. when the sale of a commodity is not followed by the purchase of another, money begins to operate as a means of hoarding.[1] The development of this function is determined objectively by the needs of commodity production.

As a defence against the spontaneity of the market, every commodity producer has to have the wherewithal to purchase other commodities, regardless of when his own will be sold or under what circumstances. In order to buy without selling, however, he must first, as Marx stressed, sell without buying, i.e. he must accumulate a certain reserve of money, this absolute social form of wealth, that can be exchanged at any time for any object.

When commodity-money relations and, consequently, the power of money, reached a certain stage of development, people appeared for whom the accumulation of a money hoard became, to some extent, an end in itself, the motive force of their lives. Cupidity, miserliness and attempts to sell as much as possible and to buy as little as possible, to draw money out of circulation and hide it in a trunk or bury it, were the principles of the "political economy" of hoarders.

Under capitalism, when it becomes possible to grow rich

[1] Cash reserves, representing money intended for expenditure and only temporarily suspended in its currency, must be distinguished from money as a hoard. The wages of a worker, which he does not spend immediately, but over a definite period between pay days, can serve as an example of a cash reserve.

through the exploitation of wage labour, this primitive means of accumulating treasure gives way to capitalist accumulation, the basic principle of which is to put money to work as often as possible, i.e. into circulation, in order to make more and more profit from it. Capitalists keep the money released from business turnover in banks. Banks become reservoirs in which the cash funds not only of capitalists, but also of other strata of society are accumulated, from which money is released into circulation and into which it comes back again. During the general crisis of capitalism, however, there is an increasing tendency on the part of money capitalists to accumulate as much gold treasure as possible and to keep it in their own hands; and this is happening even though the holding of gold reserves is declared a state monopoly in many capitalist countries.

In October 1965, according to American sources, 15,800 tons of gold were already being hoarded (accumulated) as private treasure, which was approximately the amount of gold mined throughout the capitalist world in the preceding 14 years. Not only has most of the newly-mined gold been finding its way into private safes in recent years, but also some of the centralised gold reserves of capitalist states. This trend also reflects the instability of the capitalist economy at its present stage, the attempt of the bourgeoisie to ensure themselves against crises, wars and revolutions, and also a desire to make a fortune through speculation in gold.

Nevertheless, the bulk of the gold hoard of capitalist countries is concentrated today in central banks and state treasuries. At the beginning of 1975, their centralised gold reserves were valued at around 43,700 million dollars.

The function of money as a means of forming and accumulating hoards, unlike its other two functions, is fulfilled only by actual gold. There have been attempts to accumulate (save) paper money as well as gold; but, for the reasons mentioned above, paper money depreciates. The realities of modern capitalism thus clearly confirm Marx's proposition about the impossibility of replacing gold by paper money in its hoarding function.

With gold currency, hoards served as a sort of reservoir, by which the amount of money needed for circulation was spontaneously regulated. As soon as the need of circulation

for money increased, gold was withdrawn from hoards and began to function as the medium of circulation. When, on the contrary, the amount needed fell, gold coinage fell out of currency and passed into hoards. With paper currency, hoarding ceases to be a spontaneous regulator of the mass of token money in circulation.

Money as a Means of Payment

Even in the early stages of the development of commodity-money relations there arose a need on occasion to obtain commodities with deferred payment. This happened both because of differences in the times of production and conditions of sale of individual commodities, and in connection with the seasonal nature of the production expenditure or procurement of raw materials in certain branches of industry (for example, in agriculture, lumbering, businesses processing agricultural raw materials, and so on). When a purchaser finds himself unable to buy the commodity he needs for cash, he can buy it on credit and pay for it later, i.e. complete the second metamorphosis of commodity circulation ($M–C$) before the first one ($C–M$). In that case, the seller becomes a creditor and the buyer a debtor.

Let us take an example. Let us assume that a producer of agricultural equipment has made a plough and markets it in the spring. A farmer needs such a plough, but will only have the money at his disposal after the harvest has been gathered and sold, i.e. not before the autumn. No one will buy the plough for cash. In this situation, it becomes economically expedient not only for the purchaser, but also for the seller, to strike a bargain to sell the plough on credit with payment deferred until the autumn. Having obtained the plough, the farmer hands over a promissory note, in which he commits himself to pay the seller of the plough a definite sum by a fixed date. He thus becomes a debtor, while the seller of the plough plays the role of creditor. Here, money has performed its function of a measure of value, but not of medium of circulation, since the transaction was completed without it. When the time comes for the debtor to pay the

creditor for the plough, money will appear in a new role, as a means of payment.

In time, money came to perform this function outside the sphere of commodity circulation in the payment of rent and taxes, i.e. where it passes from hand to hand, without promoting the movement of commodities.

Money's *function as a means of payment* reaches its fullest development in the capitalist economy, when it more and more supplants its function as the medium of circulation. Money now, as a rule, serves as the medium of circulation only in petty retail trade, while in large-scale wholesale trade, and even more so in international trade, it functions primarily as a means of payment. This is connected above all with the spread of credit relations and of banking under capitalism and with the development of a new instrument of circulation, *credit money*, on this basis. Debtors' obligations, *bills of exchange, or promissory notes,* signed by those purchasing commodities on credit, were the first and simplest form of such money.

In our example, the seller of the plough, on receiving the farmer's promissory note, by adding his own endorsing signature, could use it instead of money to buy, say, metal. The seller of the metal, in turn, could buy fuel with it, and so on. Thus, bills (promissory notes of individuals) can fulfil the role of money in trade turnover, but their use is limited to the circle of commodity producers who are personally acquainted with each other's solvency and the period of payment originally named on the bill (note). As commodity turnover expands and markets become more distant, promissory-note circulation becomes insufficient. On its basis a more developed form of credit money arises–bank notes, or bank bills.

Bank notes are the promissory notes of big banks, which they issue as a rule in exchange for the private commercial papers (bills of exchange, promissory notes) of industrialists and merchants. With gold currency, bank notes, in contrast to paper money, were freely exchanged for gold in banks and their branches, and circulated freely on a par with gold coins throughout the country and even beyond. When, during the First World War, however, free exchange of bank notes for gold was suspended in most capitalist countries (and sub-

sequently in all countries) and paper money began to be issued in large quantities to finance military and other government expenditure, bank notes retained only the appearance of credit money and became, in essence, ordinary paper money. They still function as such today. Other types of credit money under capitalism are *cheques* and *drafts*, which are written orders to a bank to pay cash or to transfer the named sums from one bank account to another on a clearing basis.

With highly developed credit relations, the possibility arises of paying off debts by means of mutual transfers without using cash. When one commodity producer must pay a certain sum to another, and he to a third, while the third is equally indebted to the first, it might turn out, when their mutual debts are compared, that no one is in debt to anyone. In capitalist countries, the banks have special clearing houses to offset mutually cancelling payments, and their turnover is considerable. Clearing, like credit money, reduces the need in circulation for actual gold money.

In connection with the function of money as a means of payment, the formula for the amount of money needed for circulation given by us above is fundamentally altered and acquires the following form:

$$M = \frac{P - C + PD - Cl}{MC},$$

where M is the amount of money needed for circulation; P is the sum total of commodity prices; C is the sum total of the prices of commodities sold on credit; PD is payments due; Cl is the total clearings; and MC the average number of money turnovers.

At a given rate of money turnover, the total amount of media of circulation and means of payment functioning in a society will be equal to the sum total of the prices of commodities to be sold, minus the sum total of the prices in credit sales, plus the total payments due, minus the total of mutually cancelling payments (clearings).

The development of money's function as a means of payment reflects a further aggravation of the contradictions of commodity production, adding the antagonism of creditor

and debtor to the previously existing between buyer and seller. Usury, or money lent at high interest rates, grew up on this basis. By increasing the mutual dependence of commodity producers on each other, money as a means of payment creates new possibilities for crises to develop. It is sufficient for one or more debtors not to pay on time for a series of failures to pay and bankruptcies of commodity owners, interconnected by debt obligations, to result. With simple commodity production, however, this possibility remains formal; only with the capitalist mode of production does it become inevitable.

World Money

The expansion of commodity-money relations beyond national boundaries leads to money functioning on the world market. "When money leaves the home sphere of circulation, it strips off the local garbs which it there assumes, of a standard of prices, of coin, of tokens, and of a symbol of value, and returns to its original form of bullion."[1]

In world commodity-money turnover, money functions primarily as a means of payment, because transfers between countries are, as a rule, not completed in cash for each commercial or financial transaction, but by transfer of bills of exchange or other debt obligations through banks. It only becomes necessary to transfer gold when indebtedness is not covered by mutual clearing. Money then operates as a *universal means of payment.* Only during wars, periods of heightened international tension, or economic upheaval of some sort, when normal relations between states are disturbed, does it become necessary to purchase foreign goods with cash. Then money begins to function as an *international means of purchase.*

If the transfer of gold from one country to another is not connected with purchases or payments, but is intended as a transfer of accumulated wealth, money then appears as an *absolute social materialisation of wealth.* This is what hap-

[1] Karl Marx, *Capital,* Vol. I, p. 141.

pens, for example, when the ruling classes transfer accumulated gold reserves to foreign banks, when capital is exported in money form and profits transferred from foreign investments, when war indemnities are paid, and so on.

In spite of the fact that the nature of money as world money corresponds to its form of bullion or gold ingots, the substitutes for gold, or token money of particular states, are also used in international transactions, a fact resulting from the broad expansion of international trade and credit relations. The role of substitute for world money is usually performed by the currency of countries that, at the time, occupy the leading position in world economic relations. A national currency can operate as a substitute for gold only on a condition that, on the demand of a state or its central bank, it is freely exchanged for gold at the established rate of exchange, i.e. is a hard or freely convertible currency. Before the First World War, the role of universal currency was predominantly fulfilled by the British pound sterling. Then this role almost completely passed to the American dollar, and the pound was relegated to second position. Since 1971, dollars have ceased to be exchangeable for gold.

At present, the world capitalist system is undergoing a lingering monetary and financial crisis (for its essence and causes see Chapter 17). Under these conditions, some countries (France, for example) are even more persistently advocating a return to international payments based on gold. The policy of "demonetising" gold is being pursued by the USA and other countries, i.e. of its final replacement as world money by a kind of "collective, supranational currency", by what are called the special drawing rights (SDR) of members of the International Monetary Fund. This policy has so far not only failed to justify the hopes of stabilising international transfers, but has led to further deepening of the currency and financial contradictions between individual capitalist countries and groupings. The contemporary monetary crisis is thus convincing confirmation of the fact that, in the final analysis, only gold can fulfil the role of universal money.

6. THE LAW OF VALUE—AN ECONOMIC LAW OF COMMODITY PRODUCTION. COMMODITY FETISHISM

The law of value is the economic law of commodity production in accordance with which commodities are produced and exchanged in correspondence with the quantity of socially necessary labour expended on making them. This law operates objectively when the production relations between people are realised through the exchange of the products of their labour on the market.

Having emerged with the birth of regular exchange of the products of labour, the law of value has operated throughout the history of commodity production, but the way it has operated has changed significantly, depending on the production relations predominant in any society. With commodity production based on private property, it operates spontaneously as a force beyond the control of society, bringing about differentiation of commodity producers and exploitation of wage labour by capital. In a commodity economy based on public socialist property, the law of value is used in a balanced way to stimulate the development of production in the interests of all members of society.

Since the law of value determines the proportions in which commodities are exchanged, and regulates their prices, it would seem, at first glance, to be no more than a law of commodity circulation, with no direct relation to the production process. In actual fact, however, it is one of the economic laws actively influencing the production of commodities.

The Law of Value as a Spontaneous Regulator of Commodity Production

For production to be repeated regularly, definite proportions are objectively necessary between the different branches of material production in any society. When private property predominates, this balance is ensured by the spontaneous operation of the law of value.

The law of value exerts a regulating influence on the distribution of labour and the means of production through

the spontaneous fluctuations of market prices around their values, resulting from changes in the balance between supply and demand. If the supply of a commodity exceeds the effective demand for it, its price will drop below its value. On the other hand, if demand exceeds the supply of a commodity, its price will rise above its value. Full coincidence of price and value is only possible when demand corresponds to supply, which is only an instant in the constant fluctuation of prices. These fluctuations of prices around values, being the only possible manifestation of the law of value on the spontaneous market, also call forth significant changes in production, since they determine the personal interest of commodity producers in the production of any commodity.

If, for example, it is found on the market that the price of shoes is tending to fall, while the prices of haberdashery are, on the contrary, rising, the production of shoes will tend to slow down and that of haberdashery to speed up. The supply of haberdashery will consequently, after some time, exceed demand, while the demand for shoes, on the other hand, will cease to be satisfied. Then an opposite tendency will set in in the movement of market prices; those of shoes will begin to rise, and those of haberdashery to fall, with the result that the trend in the distribution of social labour between these industries will be reversed.

The spontaneous fluctuations of prices on the market, by making production in any industry more or less profitable, stimulate either an influx of labour and means of production into it from other industries or an outflow of them into other industries. Without the deviation of prices from values, spontaneous commodity production could not exist and develop.

Influence of the Law of Value on Growth of Productive Forces

The law of value plays a most important role in stimulating growth of labour productivity in a commodity economy. Since in the production of any particular commodity, enterprises with different technologies and organisation of production and workers with different skills are involved, different amounts of labour time are therefore expended per

unit of output. In some enterprises, labour productivity is higher and the individual value of the product is lower than the social value, while in others, on the contrary, labour is less productive and the value is above the social value. On the market, however, all commodity owners sell the same commodities at the same market price, based on a single social value. The owners of enterprises producing the product with an expenditure lower than that socially necessary will receive additional income from its sale, in the form of the difference between its social value and its lower individual value. They will become richer. Commodity producers whose individual expenditures are higher than that socially necessary will suffer losses and their businesses will begin to decline. The position of commodity producers making the product under average socially necessary conditions will prove to be unstable, because it will be sufficient for the price of the commodity to drop below its value (as a result, say, of supply outrunning demand) for their production to be unprofitable.

In order to survive in competition or to maintain an advantageous position established on the market, each commodity producer constantly strives to increase labour productivity, i.e. to reduce expenditure of labour per unit of output. He must be constantly concerned to improve the techniques and technology of production, its organisation, the skills of the workers, and so on. The overall objective result is development of the productive forces and an increase in the productivity of social labour. At the same time, private ownership engenders phenomena like commercial secrecy and a spontaneous disturbance of the necessary balance of the economy, leading to a considerable loss of economic resources, which retards development of the productive forces.

The Law of Value and the Transformation of Simple Commodity Production into Capitalist Production

The divergence of the individual expenditure of labour from social, plus the spontaneous fluctuation of prices around

values, bring about a differentiation of commodity producers, enriching some and impoverishing others. Whatever the conditions for realising commodities on the market, the producers who are strongest in a given branch of industry, who have the biggest, best equipped enterprises, are invariably the victors in competition. Selling their commodities at prices above their individual values, they receive additional income, which they use to expand production, using wage labour. With time, these commodity producers become people living entirely on the exploitation of wage labour, i.e. capitalists. Just as inevitably, under the influence of the law of value, the mass of petty producers become poorer and in the end are ruined and become proletarians.

Lenin made a thorough scientific analysis of the process of differentiation of small commodity producers and transformation of small-scale commodity production into capitalist production in Russia. "The penetration of commodity production into the countryside," he wrote, analysing the pre-revolutionary statistics on the economy of the Russian village in the post-reform period, "makes the wealth of the individual peasant household dependent on the market, thus creating inequality by means of market fluctuations and accentuating it by concentrating free money in the hands of some, and ruining others. This money naturally serves for the exploitation of the propertyless, turns into capital."[1]

An even more intensive squeezing of small businesses by big business on the basis of spontaneous operation of the law of value is to be seen in capitalist commodity production. In the USA today, for example, according to official statistics, more than 100,000 farmers are ruined each year and 6,000 to 10,000 industrial, commercial and other firms go bankrupt.

In commodity production based on private property, consequently, the law of value is an economic law causing differentiation of small commodity producers and transformation of small-scale commodity production into capitalist

[1] V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 1, pp. 482-83.

production, and exacerbation of the antagonistic contradictions of the latter.

The Fetishism of Commodities

The products of labour produced for exchange by private commodity producers acquire special properties, which appear supernatural to people. "A commodity appears, at first sight, a very trivial thing, and easily understood," Marx wrote. "Its analysis shows that it is, in reality, a very queer thing, abounding in metaphysical subtleties and theological niceties."[1] The cause of this is rooted in the hidden social character that labour acquires in commodity production based on private property. Material goods are not made for personal consumption but for sale on the market, i.e. to satisfy the needs of society. Private property, however, separates the producers, and the only possible form of economic link between people becomes the exchange of commodities, the movement of things.

Since this exchange happens spontaneously, the position of each producer depends on the spontaneous market situation. Commodity producers become totally dependent on the fluctuations of the market prices for commodities. On whether a commodity is sold or not, and on whether the amount received covers the expenses or not, depend both the fate of the enterprise and the prosperity of its owner.

The dependence of commodity producers on market forces is seen on the surface of society as the domination of a certain supernatural power of things (commodities, money) over people, who begin to worship the commodities they produce, just as the religious man bows down before the image of a God he has himself drawn. In the past peasants, believing that "God set prices", sometimes had products blessed in church, and offered prayers, before taking them to market.

The property of things to dominate people, however, is not engendered by their use value or by any mysterious power

[1] Karl Marx, *Capital*, Vol. I, p. 76.

with which they have been endowed by nature. It is only inherent in products of labour produced for a spontaneous market. Economic relations between separated private commodity producers cannot be manifested in any way other than through the exchange relations between the products of their labour, i. e. commodities. They take a material form, and this materialisation of the production relations in a private property commodity economy, reflected in people's minds in the form of the supernatural properties of commodities, Marx called the *fetishism of commodities.*[1]

The fetishism of commodities develops and strengthens as the social character of labour develops and the dependence of producers on the market strengthens. In a developed capitalist society, man feels a slave of the things and systems that surround him and dependent on the gigantic hostile social mechanism. This finds concrete expression in the omnipotence of gold and money. The fetishism of money, the deification and worship of gold, is the extreme manifestation of the fetishism of commodities in the contemporary capitalist world.

Commodity fetishism, however, must not be understood simply as human misunderstanding. Its objective basis is a specific social existence, in particular, the conditions of spontaneous, private property commodity production, when things actually become the embodiment of elemental forces and begin to dominate people, determining their well-being, will and consciousness. The materialisation of production relations is the objective basis of the fetishism of commodities, and the phenomenon does not disappear simply because its mystery has been unveiled by Marxism-Leninism.

Bourgeois political economy not only has not disclosed the true nature of this fetishism, but on the contrary strives to strengthen it in every way possible, depicting money and its power over people as a specific natural property of gold, requiring the subordination of man to it.

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[1] See Karl Marx, *Capital*, Vol. I, p. 77.
A fetish is an inanimate object, endowed in the minds of believers with supernatural properties and therefore serving as an object of blind worship.

The transfer of power to the working people, the establishment of common ownership of the means of production, and planned organisation of the economy put an end to people's dependence on the spontaneous exchange of things and consequently, also put an end to the fetishism of commodities.

7. THE SIGNIFICANCE OF THE MARXIST-LENINIST THEORY OF COMMODITY PRODUCTION

One hundred and ten years ago, in August 1867, having just finished correcting the last page of the proofs of the first volume of *Capital*, Marx wrote to Engels: "The best points in my book are: 1) the *twofold character of labour*, according to whether it is expressed in use value or exchange value. (*All* understanding of the facts depends upon this.) It is emphasised immediately, in the *first* chapter; 2) the treatment of *surplus value independently of its particular* forms as profit, interest, rent, etc."[1] That is how Marx himself defined the significance and place of the fundamental element of his labour theory of value in the political economy of the proletariat that he had created. Marx's doctrine of the twofold character of the labour embodied in a commodity was the starting point of his revolution in economic science.

The beginnings of the labour theory of value had been laid long before Karl Marx by the classical bourgeois political economists William Petty (1623-1687), Adam Smith (1723-1790) and David Ricardo (1772-1823). They were the first in the science to answer the question posed by Aristotle, stating that "if the quantity of labour realised in commodities regulate their exchangeable value, every increase of the quantity of labour must augment the value of that commodity on which it is exercised, as every diminution must lower it".[2] Because of its class limitations, however, bourgeois political economy proved unable to understand the true nature of a commodity and of the labour embodied in it or to reveal its

[1] Karl Marx and Frederick Engels, *Selected Correspondence*, Moscow, 1975, p. 180.

[2] David Ricardo, *The Principles of Political Economy and Taxation*, London, New York, 1955, p. 7.

contradictions and explain the mechanism by which the law of value operates. The classical bourgeois political economists considered the social division of labour, production and the exchange of commodities to be eternal phenomena outside history, resulting from the very nature of man and his innate inclination towards barter and exchange. From this logically stemmed their affirmation of the eternal nature and stability of capitalist production as the highest form of commodity production.

Marx's discovery of the twofold character of the labour that creates a commodity transformed the labour theory of value into a truly scientific one and made it possible to disclose the patterns of development of a commodity economy, explain its contradictions, define the historical boundaries of commodity-money relations, and analyse their economic content and role in different periods.

Capitalist exploitation is based on commodity relations and is masked by them. The labour theory of value therefore served as a necessary scientific prerequisite for explaining the essence of capitalist exploitation. Since everything needed for living is produced by human labour, the questions naturally arise of how people who do not do any socially useful work exist in the capitalist world; from what sources does the wealth of the capitalist class as a whole increase; and why do the working people not only not become richer, but, on the contrary, become poorer and live in constant need and deprivation. On the basis of the labour theory of value, Marx ripped off the mask of a society of freedom, equality and fraternity from capitalism and exposed it as a system of the most refined exploitation of man by man.

Lenin made a major contribution to the development of the Marxist theory of commodity production. Even in his early works, he gave a classical example of creative application of Marx's theoretical arguments to analyse concrete reality and demonstrated their tremendous vitality and revolutionary significance. He made an all-round analysis of the mechanism of the spontaneous operation of the law of value, and of the differentiation of simple commodity economy and the development of capitalism, using extensive factual data on the economy of tsarist Russia over more than a quarter of a century. Lenin showed that the commodity production of

peasants and artisans, praised by the *Narodniks* (Populists) as the "people's system" and as "labour production", was not only not the antipode of capitalism, but, on the contrary, served as its broadest foundation, and that at a certain stage of its development, it inevitably gave birth to the two main classes of bourgeois society, the bourgeoisie and the proletariat. Having demonstrated scientifically that Russia had already taken the road of capitalist development, he showed at the same time the objective inevitability of a sharpening of the contradictions of capitalism, of the growth of a proletariat in Russia and of the development of class struggle.

Analysis of the class differentiation of the Russian village showed that, in the ruined and exploited part of the peasantry, the proletariat could find a firm ally in its revolutionary struggle against the bourgeois-landowner system. This conclusion was and still is of exceptional importance, not only for victory of the socialist revolution and the building of socialism in Russia, but also for the development of the revolutionary process throughout the world. Lenin also made a thoroughgoing scientific study of the special features of the operation of the law of value and of capitalist competition in the epoch of monopoly domination in his *Imperialism, the Highest Stage of Capitalism.*

After the Great October Socialist Revolution, Lenin worked out all aspects of problems of employing commodity-money relations in the establishment and development of the socialist economy and of their fundamentally different content and purpose in the new historical epoch.

Bourgeois ideologists and reformist and revisionist theoreticians devote special attention to "disproving" or "overthrowing" the labour theory of value, because it is the key to scientific understanding of the essence of capitalist exploitation and to substantiation of the inevitability of the revolutionary replacement of capitalism by socialism.

Critique of Modern Bourgeois and Reformist "Theories" of Value

With the appearance of the first volume of *Capital,* previous vulgar theories of value (the theory of supply and demand, the theory of costs of production, and others) proved to be

routed and Marx's doctrine was more and more widely accepted. In such circumstances, bourgeois political economy tried to oppose Marxism with a new version of the vulgar theory.

In the second half of the nineteenth century, the representatives of what is called the Austrian school, Böhm-Bawerk and Menger, advanced the *theory of marginal utility.* Almost simultaneously a mathematical version was formulated by Jevons in England and Walras in Switzerland. According to the marginal utility theory, the value (exchange value) of any material good is determined by its marginal, i.e. its minimum, utility. By the utility of things the authors of this theory understood not the objective property of commodities to satisfy some particular social need in the actual conditions of commodity production, but their subjective psychological evaluation by people in the unusual circumstances in which they possessed a certain stock of some material goods and could not freely reproduce or exchange them for other goods. The subjective theory of value ignores the social character of production, denies the existence of objective economic laws and depicts each producer of material goods as a man living in complete isolation from society. Thus Böhm-Bawerk, for example, put his "economic man" in a hut, standing alone in a primitive forest. This settler had at his disposal five sacks of corn, one of which he needed in order not to starve to death, another to improve his diet, a third to feed his domestic animals, a fourth to make schnapps, and the fifth to feed parrots for amusement. It was this last, fifth sack, that gave its owner the lowest utility, that supposedly determined the exchange value, or value, of corn. *"The magnitude of the value of a material good,"* Böhm-Bawerk concluded, *"is determined by the importance of the actual need (or partial need) which occupies the last place in the series of needs, satisfied by all available stocks of material goods for the given type.... The value of a thing is measured by the magnitude of the marginal utility of the thing.* This is the central point in our theory of value. Everything else is connected with it and is concluded from it."[1]

[1] E. v. Böhm-Bawerk, "Grundzüge der Theorie des wirtschaftlichen Güterwerts". In: *Jahrbücher für Nationalökonomie und Statistik,* Bd. 13, Jena, 1886, S. 28-29.

Consequently, the more commodities there are, the lower their supposed utility, and the lower their value; conversely, the fewer commodities there are, the greater their utility and value. Trying to "improve" the marginal utility theory, the American bourgeois economist J. B. Clark and his followers began to assert that the value of a good was determined by society as a whole and that its utility for individuals was a reflection of its social utility.

The modern American economist Paul A. Samuelson has his own way of trying to develop the marginal utility theory. Taking it as indisputable that the utilities of things, or their use values, are incomparable, he deduced mathematically, from an infinite series of the marginal utilities of individual commodities, a certain average marginal utility per dollar of income, or what has been called the law of equal marginal utilities per dollar. This law supposedly serves as the basis for comparing the useful properties of different goods as exactly proportional to their prices.

Engels showed the marginal utility theory to be unconvincing as soon as it appeared, calling it the "theory of unlimited disutility". Its fundamental methodological weakness is that it is obviously idealistic in nature, since it deduces the objective economic category of commodity production—value—from the consciousness and psychological feelings of people, taken in isolation from concrete social relations and real life.

Price formation under the actual conditions of commodity production is in fact subjected, in the final analysis, to economic laws that operate irrespective of human will and consciousness. The subjective evaluations of material goods by people of different social background cannot be the same: what seems cheap to the capitalist is considered dear by the worker, and unattainable by the unemployed. Yet identical goods are bought and sold at prices that are the same for all, which can only be explained by the prices of commodities having the same basis, an equal quantity of social labour expended on their production. At the same time, whatever individual person's subjective evaluations of various things, of motorcars and fountain pens, for example, the car will always be dearer than the pen, since more social labour is expended on its production. The marginal utility theory identifies the value of commodities with their utility, i.e. with

their use value; but utility (including marginal utility) cannot be the substance of value, cannot be the general measure of things, since the use values of commodities are qualitatively different and not comparable.

Resorting to mathematics does not save marginal utility theory either. Mathematics can only serve as an instrument of economic analysis; if a formula is based on premises that are incorrect and do not reflect the real relations between people, the result will inevitably be misleading. The volume and structure of social demand under capitalism are determined not by some mathematically expressed average classless marginal utility, but above all by the antagonistic character of the distribution of material wealth among the different classes of bourgeois society. "A fall in the utility of material goods" resulting, as it were, from increasing satiation of man's needs, in fact means an increase of difficulties in selling commodities, caused by diminution of the workers' share of the national income and by their effective demand falling behind the development of production.

In their striving to refute Marxism-Leninism and justify the continued existence of capitalism, reformist and revisionist theoreticians come closer and closer to the position of reactionary bourgeois economists, and their numerous "theories" of value have the same aim.

In spite of their seeming diversity, all these theories are fundamentally the same distortions of the essence of the Marxist-Leninist labour theory of value, denials of its real significance, and an open or hidden transition to a position of "subjective value".

At the end of the last century, in opening the revisionist crusade against Marxism, Eduard Bernstein was already claiming that Marx's theory of value was too abstract and that it was simply a hypothesis that in no way corresponded to real life. He proposed combining it with marginal utility theory.

Decades later, after World War II, John Strachey, one of the leading theorists of British Labour, repeated essentially the same thing. While considering the labour theory of value only a rich hypothesis and according it some significance for the system of distribution, he believed that it had nothing to do with some convincing facts of their (i.e. capitalist—*Ed.*)

modern economics and therefore it was now time to reject it.

Other reformists, while pretending to support Marxist theory, in fact deny value as an objective economic category and try to depict the production relations contained in it either as relations arising only in the sphere of circulation or as categories of consciousness (logical, moral, ethical, legal, etc.). Some of these "supporters" even try to attribute the subjective psychological interpretation of value to Marx himself. One of the theoreticians of West German Social-Democracy, Walter Theimer, claims that the theories of value and surplus value, like Marxism as a whole, rest on an ethical rather than on an economic foundation and that Marx only needed his proclamation of labour as the sole source of value in order to show that all products should belong to the workers. In her *An Essay on Marxian Economics*, the English economist Joan Robinson also "proves" that none of the categories of Marxist political economy express actual economic relations, but were brought into science by Marx's "anger" and that there was allegedly no single point in the essence of Marx's argument that depended on the labour theory of value.

Such arguments are not new. Long before contemporary reformists, the Russian "legal Marxist" M. I. Tugan-Baranovsky (1865-1919) also tried to prove that recognition of labour as the sole source of value was only linked with recognition of man as the "supreme value". If not for these purely ethical, humanist considerations, we could also consider that horses also create value. In actual fact, Marx deduced the economic significance of labour not from ethical norms, but from its objective role in the life of human society. Through labour, man became differentiated from the animal world; labour united people and created human society from them. "Every child knows," he wrote to his friend Kugelmann, "that a nation which ceased to work, I will not say for a year, but even for a few weeks, would perish."[1] Value is a historically defined form of social labour. It expresses the relations between people in the course of

[1] Karl Marx and Frederick Engels, *Selected Works*, in three volumes, Vol. 2. Moscow, 1969, p. 418.

the production and appropriation of material wealth, and not the relations between man and things. This is why neither the energy of horses nor of machines has any relation to the formation of value. Machines, horses and other means of production have value themselves only in so far as a certain share of the social labour of commodity producers is expended on them.

If any capitalist business expends more labour on producing a unit of its output than is socially necessary, i.e. more than the social value of the given product, it will inevitably begin to decline and its owner will be ruined (let us note, incidentally, that it is the owner who is ruined, not the horses or machines employed in this business, as exponents of the ethical "theory" of value represent it). All this irrefutably proves that labour value is an objective economic category, expressing the actual social relations of a commodity society irrespective of the will and consciousness of people. And this is why the numerous attempts of bourgeois and reformist theoreticians to refute or distort the Marxist-Leninist labour theory of value, and to replace it with unscientific apologetic theories, are fruitless. "As to the theory of value," Lenin wrote describing these attempts, "it need only be said that apart from the vaguest of hints and sighs, *à la* Böhm-Bawerk, the revisionists have contributed absolutely nothing, and have therefore left no traces whatever on the development of scientific thought."[1]

This evaluation also applies fully to modern reformists who, in conjunction with bourgeois economists, assiduously fulfil the social commands of the bourgeoisie–to justify capitalism with all their power and defend it from its inevitable end.

Critique of Bourgeois Theories of Money

Having proved incapable of revealing the true nature of a commodity and of the labour embodied in it, and of understanding the essence of value, bourgeois economists could

[1] V. I. Lenin, "Marxism and Revisionism", *Collected Works*, Vol. 15, p. 36.

not, either, of course, explain the essence of money. They explain the value of money by the natural properties of gold, or by the amount of money in circulation, or by its value having been set by state decree. Accordingly, there are three basic theories in their interpretation of the origin and essence of money: the metallist, quantity, and nominalist. Marx gave an exhaustive critique of these apologetic theories in *Capital*; nevertheless, they are still in vogue. All contemporary bourgeois theories of money are, in essence, only different variants and combinations of them.

The metallist theory of money arose in the early stages of the development of capitalism. Having made a fetish of money, the representatives of early metallism, William Stafford, Thomas Mun, Ferdinando Galiani and others, claimed that gold and silver were money by virtue of their nature, and that they had this property and would always have it, irrespective of the social structure. The functioning in currency of tokens for gold, paper money in particular, was considered unnatural. Marx demonstrated convincingly that money was the product of the long development of commodity production and of its contradictions. Objects of one kind or another only become money when social relations require it. The noble metals are simply the most convenient material for fulfilling the function of a universal equivalent. Gold becomes money, the bearer of social relations, only under definite social and historical conditions, specifically with a sufficiently high level of development of commodity production and exchange. Contemporary "metallists" strive, but without success, to show that the instability of the capitalist economy and contradictions of capitalism can be eliminated and capitalism rescued with the help of the "miraculous" power of gold.

The nominalist theory of money took shape during the establishment of the capitalist mode of production, although views similar to those of the nominalists were expressed by the Greek philosophers Plato and Aristotle. The theory received its substantiation and development in the works of the seventeenth- and eighteenth-century English economists, Nicholas Barbon, George Berkeley and James Stuart. Marxism-Leninism subjected the nominalist theory to devastating criticism, but it has been revived in the epoch of imperi-

alism in the works of the German professor G. F. Knapp, the Austrian bourgeois economist Bendixen, and others.

Supporters of the nominalist theory claim that money is simply a nominal unit of account, lacking any material content, a conventional token established by the state for measuring the value of goods. In their opinion, money has no value itself and, consequently, no inner connections with commodities either, and receives its force entirely from the state authorities.

It is not difficult to see that this theory is idealistic in nature. It replaces objective economic laws and categories by legal concepts and norms and reduces the essence of money as a historically determined social and production relationship to its outward and visible form, i.e. to the standard of price. The state can actually establish any standard of price, i.e. the fixed weight of precious metal to be taken as the unit of money, but it is not in a position to legislate the value of this metal. Paper money, tokens of value, can of course also serve money circulation, but having no value of its own, paper money appears only as a substitute for actual gold money in its function as the medium of circulation and means of payment. With paper money in currency, the measure of value remains gold and the purchasing power of the paper money is determined, in the final analysis, by the value of the gold it replaces.

In essence the nominalist theory is a reactionary bourgeois theory. When it appeared it served as a justification for the debasement of coinage, that is reduction of the precious metal content of coins, then practised by exchequers and treasuries. At present, the theory is extensively employed to justify excessive issues of paper money and inflation, which are additional ways of robbing and exploiting working people.

One of the most widely held bourgeois theories is the *quantity theory of money*, which affirms that the value of money, be it gold or paper, is determined exclusively by the quantity of it in circulation. This theory took shape in the eighteenth century, primarily in the United Kingdom, when the interests of industrial capital required freedom of trade. Its leading exponent then was the Scottish philosopher and economist David Hume, who held that money

had no innate value and that its value arose solely as a result of its functioning in currency.

The fullest generalisation and development of the views of the classical supporters of the quantity theory are to be found in the works of David Ricardo. In Ricardo's theses concerning the essence of money one can see most clearly the inconsistency of his whole economic theory. As a supporter of the labour theory of value, he considered that the noble metals had an innate value, determined (like the value of other commodities) by the labour time spent on their production. Alongside this he held that gold coins had more or less value according to the number in circulation and that, as the quantity of gold increased, its value fell. This was a deviation from the labour theory of value. Ricardo, like all supporters of the quantity theory, reduced the essence of money to a single function, that of a medium of circulation, not understanding its other functions. He confused the laws of circulation of full-value gold money and tokens of value, paper money, and assumed that any quantity of full-value coins could be in circulation. From that it followed that commodities entered circulation without a price and money without a value, and that the prices of commodities altered according to the quantity of money on the market.

In criticising the quantity theory, Marx demonstrated scientifically that only the quantity of full-value money actually needed entered circulation. Money (or gold as a monetary commodity) has its own value, formed in production before the process of circulation. It fulfils its function as the measure of value of commodities before the direct act of purchase and sale. Commodities therefore enter circulation with a specific price and money with a specific value, and it is simply impossible for the quantity of gold money in currency to be more or less than that needed. The depreciation of monetary gold in the seventeenth century (to which the quantity school usually referred) was the result not of a surplus in circulation, but of an increase in the productivity of labour in gold mining and a fall in the value of gold.

The quantity theory is also not correct as regards the currency of paper money since, on the market, a mass of paper money is not simply exchanged for a mass of commodities, but the purchasing power of the paper money is determined

by its ratio to the quantity of gold money needed for circulation.

Under contemporary conditions, the quantity theory, brought up to date by the British economist John Maynard Keynes (1883-1946), is employed by apologists of capitalism to "prove" the possibility of planned management of the capitalist economy by regulating the circulation of money. In practice, however, this is reduced to justifying a limitation of the growth of workers' wages, inflation of the prices of goods and services, increase of taxation of the working people, and so on.

Consequently, however different the bourgeois apologetic theories of money may seem on the surface, in essence their sole purpose is one and the same, to justify and defend the capitalist system.

Chapter 4

CAPITAL AND SURPLUS VALUE. WAGES UNDER CAPITALISM

The theory of capital and surplus value is central to Marxist-Leninist political economy. It describes the essence of capitalist production, its goal and motive force, and reveals the antagonistic contradictions of capitalism. Karl Marx was the first to give a truly scientific analysis of the capitalist mode of production. He discovered the basic economic law of capitalism, the law of surplus value, substantiated the inevitability and significance of the irreconcilable class struggle between proletariat and bourgeoisie, and demonstrated the inevitability of victory of the socialist revolution.

1. THE TRANSFORMATION OF MONEY INTO CAPITAL AND OF LABOUR POWER INTO A COMMODITY

The General Formula for Capital

The historical premises for the emergence of capital were commodity production and the developed forms of commodity-money circulation. The end-product of commodity circulation is money which is also, at the same time, the first form of the movement of capital.

With simple commodity circulation, the petty commodity producers, artisans or peasants, sell their commodities for money in order to buy other commodities with it. This act, as we know, is completed according to the formula *C* (commodity)–*M* (money)–*C* (commodity); and in it, money fulfils its function as a medium of circulation, serves as an

intermediary in exchange and is not capital. The goal of circulation is use value. Petty commodity producers sell the products of their labour in order, with the money they receive, to buy the consumer goods and means of production they need. "Consumption, the satisfaction of wants, in one word, use-value, is its [i.e. circulation–*Ed.*] end and aim," Marx said.[1]

At a certain stage in the development of commodity production, money is transformed into capital. The general formula of capital is $M–C–M'$, where $M'=M+m$, i.e. equals the sum of money originally advanced plus a certain increment. Money forms the starting and finishing point of the movement of capital, while the role of intermediary is played by a commodity.

In this cycle, money is not spent, but simply advanced. It returns to its original owner, and, what is more, with a certain increment or increase. And this increment or surplus of value over the value originally advanced Marx called *surplus value*. The goal of the circulation of money as capital, consequently, is an increase or augmentation of value. In the formula of the circulation of money as capital, the chief aim and compelling motive of capitalist production, the extraction of surplus value, is clearly visible. Consequently, *capital is value that yields surplus value, or self-expanding value.*

The $M–C–M'$ cycle is not concluded by a single act, but is constantly repeated and renewed. The movement of capital knows no limits and in it value acquires the magical capacity to create new value or, as Marx put it, "to lay golden eggs". The owner of money becomes a capitalist and his goal–the appropriation of surplus value.

The question arises as to where this increase in money takes place and where the surplus value comes from. Bourgeois economists have asserted that the increment of money is begotten in the process of circulation itself and is an increase on the price of the goods being sold. Marx refuted these views and showed scientifically that surplus value cannot arise directly from commodity circulation.

The process of circulation, taken as a whole, is an exchange of equivalents, i.e. of equal values. When commodities are

[1] Karl Marx, *Capital*, Vol. I, p. 148.

bought and sold, it is not value that changes, but only its form; the commodity form is converted into the money form and *vice versa.*

The deviations of prices from values during exchange cancel themselves out. Suppose a capitalist sells commodities of 100 dollars' value for 110 dollars. As seller he gains ten dollars, but when he becomes a buyer he loses the same ten dollars since other capitalists also have the "privilege" of selling their goods with a "mark-up on the price". The mutual winnings and losses of buyers and sellers cancel each other out. Individual capitalists can gain at the expense of others, of course, but the sum total of values will not increase as a result. This means that the increase in wealth of the whole capitalist class cannot be explained in that way. "The capitalist class, as a whole, in any country, cannot over-reach themselves," Marx said.[1]

Surplus value, however, cannot arise independently of commodity circulation. The capitalist cannot turn money into capital without entering into exchange relations with other commodity owners. He is constantly buying means of production and labour power and selling the commodities produced. All of this takes place on the market, in the sphere of circulation. The general formula for the movement of capital *M–C–M'*, Marx showed, contains a fundamental contradiction. "It is therefore impossible," he wrote, "for capital to be produced by circulation, and it is equally impossible for it to originate apart from circulation. It must have its origin both in circulation and yet not in circulation."[2] Since the law of value operates under capitalism, as in a simple commodity economy, the capitalist must buy commodities at their value and sell them at their value and, nevertheless, receive surplus value. At first glance it would seem that the begetting of surplus value contradicts the equivalence of exchange, i.e. contradicts the law of value. But, as Marx showed, surplus value not only does not contradict the law of value, but is actually formed on the basis of it.

How does this happen? Since circulation presumes an exchange of equivalents and surplus value, consequently,

[1] Karl Marx, *Capital*, Vol. I, p. 160.
[2] Ibid., p. 163.

cannot arise from the actual transformation of the money form of value into the commodity form and *vice versa*, it becomes obvious that its source lies in the use value of some special commodity bought by capitalists on the market. In capitalist society, this commodity is labour power, the use value of which possesses the unique property of being the source of value.

Labour Power as a Commodity, and Its Properties

Labour power is the aggregate of all the physical and mental capabilities of a human being for labour that are realised during production. It has always existed and will always exist, but only becomes a commodity under capitalism. Labour power becomes a commodity given two conditions: (1) the worker must be personally free and have the right to dispose freely of his own labour power; (2) the worker must be deprived of the means of production and means of existence and therefore be compelled to sell his labour power. The appearance on the market of this special commodity, labour power, meant the beginning of a specific period in the history of society, the epoch of capitalism.

The conditions in which labour power becomes a commodity are not created by nature but are the result of historical development, of economic revolutions and collapse of the series of socio-economic formations that existed before capitalism.

Being a commodity, labour power has both value and use value.

The value of labour power as a commodity, like that of any other commodity, is determined by the labour time socially necessary for its reproduction. Labour power exists only as the capacity of a living individual, and is inseparable from the worker. The reproduction of labour power, consequently, boils down to maintenance of the life of the worker himself. To restore and preserve his capacity to work, a worker must satisfy his needs for food, clothing, footwear and so on, which he buys on the market. Maintenance of his family is also one of the factors determining the value of

labour power. The owners of labour power are mortal. The continuous process of capitalist reproduction requires a continuous influx of new workers to replace those being lost. Expenditure on the training of workers, and on their acquisition of specific skills, is also included in the value of labour power. Marx also showed that, "in contradistinction therefore to the case of other commodities, there enters into the determination of the value of labour-power a historical and moral element".[1] The scale and character of the needs of a worker depend on the historical development of the given country, on the conditions in which the working class was formed and on its cultural level.

Thus, the value of labour power is determined by the value of the means of subsistence necessary for the reproduction of labour power, i.e. for maintaining the worker and his family.

The use value of a commodity, as we know, consists in its ability to satisfy a certain need of the purchaser. The capitalist who buys labour power consumes it in the process of production. In being consumed the labour power creates new commodities and new value. The process of consuming labour power is work. *The use value of labour power as a commodity* consequently, consists in the worker's capacity to create new value by his labour, greater than the value of his own labour power.

A strict *distinction* must be drawn *between labour power and labour*. Marx was the first to establish this. He revealed that the worker sells the capitalist not labour, but labour power. This is one of the main questions of political economy, which bourgeois economic science was not able to solve. Adam Smith and David Ricardo identified labour power with labour, and considered that what was bought and sold was the labour of the wage worker.

Labour power is only the capacity of the worker for labour, while labour is the process of productive consumption of labour power, its function. "When we speak of capacity for labour," Marx wrote, "we do not speak of labour, any more than when we speak of capacity for digestion, we speak of

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[1] Karl Marx, *Capital*, Vol. I, p. 168.

digestion."[1] During production, the worker creates new value with his labour, value that is greater than the value of his labour power. The difference between the newly-created value and the value of the labour power itself constitutes *surplus value.*

2. THE ESSENCE OF CAPITALIST EXPLOITATION

The Labour Process under Capitalism

The labour process, considered in isolation from its social form, is a process of interaction between man and nature, the purposeful activity of people to create use values, an eternal and natural condition of human life.

Any labour process, however, takes place in a definite social form. In each historical epoch it has its own, special, specific features. Under capitalism, these are two: (1) the worker works under the control of a capitalist to whom his labour belongs; and (2) the product of the worker's labour is appropriated by the capitalist.

Capitalist production also has a dual character. On the one hand, it is the process by which use values are created and, on the other hand, that by which value is increased or surplus value created. The production of use values, for capitalists, is simply the means of increasing value, since the goal of capitalist production is the creation of surplus value. The capitalist, Marx wrote, wants "to produce not only a use-value, but a commodity also; not only use-value, but value; not only value, but at the same time surplus-value".[2]

The Process of Producing Surplus Value

The process of the simultaneous creation of use value and of an increase in value, or the production of surplus value, can be illustrated by the following example.

Let us assume that a capitalist has set up a spinning mill in which, during an eight-hour working day, a worker processes an average of 100 kilograms of yarn, for which 100

[1] Ibid., p. 170.
[2] Ibid., p. 181.

dollars' worth of raw materials, etc., and electricity are required. The wear and tear on the instruments of labour (machinery, equipment, and buildings) in the processing of this amount of yarn is four dollars. Thus, the total value of the means of production expended is 104 dollars. In addition, the capitalist incurs an expenditure on the purchase of labour power, the daily value of which is three dollars. Let us assume that in the first four hours of labour the worker fully reproduces the daily value of his labour power (three dollars) and in the next four hours creates surplus value (three dollars).

The twofold character of labour has a correspondingly twofold result: use value is created by concrete labour, and value by abstract labour.

The spinner, making proper use of the means of production, produces a new product—yarn; in this process the value of the means of production consumed does not disappear but is preserved and transferred by concrete labour (work) to the new product. At the same time, the spinner spends his labour power on making the yarn and creates new value. Thus, a single process of the creation of use value and value takes place. In our example, the worker preserved the value of the means of production (104 dollars) during production and transferred it to the yarn. In addition, in the course of eight hours of labour, six dollars' worth of new value was created. By his labour the worker not only reproduced the daily value of his labour power (three dollars), but also created three dollars of surplus value.

"Therefore, the value of labour-power, and the value which that labour-power creates in the labour-process, are two entirely different magnitudes," Marx wrote, "and this difference of the two values was what the capitalist had in view, when he was purchasing the labour-power."[1]

The worker's ability to create, in the labour process, a value greater than that of his labour power, is not a capitalist invention, but a result of the development of the productive forces of society. The capitalist, having concentrated the means of production in his own hands, appropriates this social result without compensation and uses it to exploit wage workers.

[1] Karl Marx, *Capital*, Vol. I, p. 188.

In our example, the capitalist spent 107 (104+3) dollars on the production of 100 kilograms of yarn and received a product worth 110 (104+6) dollars. His money has been transformed into capital. It becomes such under the social form of economy in which labour power is a commodity. The transformation of labour power into an object of purchase and sale is what distinguishes the capitalist mode of production from the slave-owning and feudal modes.

Bourgeois and reformist theoreticians try to prove that workers and capitalists are "equal" as commodity owners, that they exchange equal, equivalent values with each other so that the labour of wage workers in capitalist enterprises is free, voluntary labour. In reality, the "equality" of capitalists and workers is formal. Behind the label of "equality" is concealed economic compulsion to work. The worker, having neither means of production nor means of existence, is compelled to work a substantial portion of the working day for the capitalist without pay, and his labour is in fact forced labour, which Marx described as wage slavery. In essence, capitalist exploitation differs from slave-owner and feudal exploitation only in being concealed and masked by the exchange relations of the purchase and sale of labour power.

Under capitalism, surplus labour is appropriated in the form of surplus value. Surplus value is a historical category, inherent only in capitalism.

The Law of Surplus Value— the Basic Economic Law of Capitalism

In the preface to the first volume of *Capital*, Karl Marx wrote that it was "the ultimate aim of this work, to lay bare the economic law of motion of modern society",[1] i.e. of capitalist, bourgeois society. That law is the *law of surplus value*. "Production of surplus-value is the absolute law of this mode of production," he said.[2]

The aim of capitalist production is, consequently, the creation of surplus value and its appropriation by capitalists.

[1] Ibid., p. 20.
[2] Ibid., p. 580.

Workers exist only for the needs of capital, serve as means of producing surplus value and are simply human material suitable for exploitation. The law of surplus value expresses the very essence of capitalist production, i.e. the relations of the exploitation of wage workers by capitalists. The relations between labour and capital, between workers and the bourgeoisie, are the main, fundamental relations of production under capitalism and determine all the other relations of bourgeois society. The law of surplus value is the law of motion of the capitalist mode of production and, as will be shown below, determines the growth and intensification of all its contradictions.

The scientific substantiation of the origin and essence of surplus value was Marx's great historic contribution. The theory of surplus value, in Lenin's famous evaluation, is the corner-stone of Marxist economic theory. In revealing the essence of the capitalist mode of production and demonstrating that exploitation of the working class is the source of surplus value, Marx provided this class with an ideological weapon in its struggle against capitalism. His theory of surplus value, therefore, naturally provoked the violent hatred of the bourgeoisie and its apologists. Bourgeois writers and right-wing Socialists attempted, and are still trying, to "annihilate" Marxism, to "refute" the Marxist theory of surplus value and to justify capitalism.

In discovering the economic law of motion of capitalist society Marx revealed the contradictions of capitalism and scientifically substantiated the inevitability of its downfall and of the victory of communism. As Lenin said, in his biographical sketch of Karl Marx, the inevitability of the transformation of capitalist society into socialist society was deduced by Marx "wholly and exclusively from the economic law of the development of contemporary society".[1]

The Essence of Capital

When defining capital, bourgeois economists substitute analysis of the relations between man and things for analysis of the production relations of capitalism, and identify capital with the means of production, claiming that capital

[1] V. I. Lenin, "Karl Marx", *Collected Works*, Vol. 21, p. 71.

is any kind of accumulated labour that serves for further production, i.e. any material wealth, means of production, or things in themselves. From that point of view, the bow and arrow in the hands of primitive man were just as much capital as the machine belonging to a capitalist.

The theory of the three so-called factors of production of the French vulgar economist J. B. Say (1767-1832) was widely accepted by bourgeois economists. Its essence was that three factors were involved in the process of production: land, capital and labour, and that they all took part to the same degree in the creation of value. Three types of income corresponded to the three factors of production—the landowner received rent, the owner of capital profit, and the worker wages. According to this theory, complete harmony of interests prevailed among the different classes; no one exploited anyone, and all received revenues corresponding to the share of each in production.

In *Capital* Marx subjected "the trivialities of a J. B. Say", as he put it, to sharp criticism, demonstrating that all forms of non-labour revenue (profit, rent, and interest) have surplus value as their sole source, that is surplus value created by productive labour in the sphere of material production. The means of production are not in themselves capital. They only become capital under definite social conditions, when they function as means of exploiting wage labour. Capital, in Marx's definition, is value begetting surplus value, or self-expanding value. Hence it follows that *capital is not a thing, but a historically determined social relation of production* between capitalists, who own the means of production, and workers, who lack them and are compelled to sell their labour power to the capitalists and to create surplus value for them. *Capital is a bourgeois relation of production.*

The actual relations between people are hidden and appear on the surface of bourgeois society as relations between things. Where bourgeois economists saw a relation between things (the exchange of a commodity for a commodity) Marx revealed relations between people.

Contemporary bourgeois economists and right-wing Socialists either completely deny the existence of capital or distort its nature in all sorts of ways. They press the idea that a "transformation of capitalism" is taking place today

and that modern capitalism is no longer a system of exploitation and oppression but a system of "people's capitalism" and a "welfare state" in which the production and distribution of wealth are carried out in the interests of society as a whole. But capitalist reality itself refutes these fabrications of the apologists of the bourgeoisie. The private capital of just three families of American multimillionaires, the Rockefellers, Du Ponts and Mellons, for example, exceeds the annual pay of 25 million American workers.

Constant and Variable Capital

The labour process involves (1) means of production (instruments of labour, raw materials, fuel, auxiliary materials) and (2) man himself. These factors play different roles in the formation of value and of surplus value; the worker, as we know, creates new value and, what is more, new value that is greater than the value of his own labour power, while the means of production do not create new value. In the labour process, the value of the means of production consumed is preserved and transferred to the new product by labour.

But how does the worker, by his labour, simultaneously create new value and transfer the value of the means of production consumed to the new product? For the worker does not do double work, i.e. first transferring the old value and then creating new value. He is able to do so because of the twofold character of the labour that creates commodities. With abstract labour the worker creates new value, measured by the labour time spent on producing the commodity; with concrete labour (or work) he creates a certain use value and, at the same time, transfers the value of the means of production consumed to the new product. So the processes of creating new value and of transferring old value take place simultaneously.

The material factors in the labour process (the instruments of labour, the objects of labour and auxiliary or accessory materials) do not transfer their value to the new product in the same way. Machines and buildings serve for a long time and their value is transferred in bits as they wear out.

The objects of labour and auxiliary materials are involved in production only once and either change their form or disappear without trace; but their value is preserved and transferred to the new commodity in the same amount as was contained in the materials used up. It is characteristic of the material factors of production that they do not create new value. The magnitude of the value transferred from the means of production consumed does not change. For that reason, Marx called that part of capital which is advanced for means of production its constant, invariable part or *constant capital.*

Matters are quite different as concerns the subjective factor in the labour process, i.e. labour power. In transferring the value of the means of production used up to the new product by his work, or concrete labour, the worker simultaneously creates new value with abstract labour, and this new value is greater than that of the labour power for which the capitalist pays in the form of wages. Consequently, that part of capital which the capitalist advances for the purchase of labour power changes in magnitude and increases in the labour process. For that reason, Marx called it the variable part of capital or *variable capital.*

In *Capital* constant capital is symbolised by c (the initial letter of "constant"), variable capital by v (the initial letter of "variable") and surplus value by s (the initial letter of "surplus value").

Marx was the first to discover the division of capital into constant and variable, a division that discloses the true relations between capitalists and wage workers, and reveals that surplus value is not created by the whole capital, but only by its variable part, in other words, by workers in the labour process.

The Rate and Mass of Surplus Value

Having elucidated the essence of the exploitation of worker by capitalist, it is necessary to determine how to measure its degree. Any capital (C) invested in production is divided into a constant part (c) and a variable part (v). The original capital (C) advanced–for example, a sum of 500 dollars–may

consist of $410c+90v$. At the end of the process of production, a commodity is created, the value of which is equal to $410c+90v+90s$. Of this, the $410c$ is old value transferred and the $90v+90s$ is newly-created value. In the labour process, workers reproduce the variable capital (v) advanced by capitalists for the purchase of labour power and create surplus value (s). To determine the degree of exploitation of labour power, therefore, the surplus value (s) must be related not to all the capital advanced (C), but to the variable capital (v) alone. The relationship is usually expressed in percentages. In our example, it will look like this:

$$\frac{90s}{90v} \times 100 = 100 \text{ per cent.}$$

The rate of surplus value is the ratio of surplus value to variable capital, and is symbolised as s'. The formula for the rate of surplus value then has this form: $s' = \frac{s}{v}$.

The working day and the labour expended in the course of it are divided into two parts. That part of it during which the value of labour power is reproduced Marx called *necessary labour time* and the labour expended during it *necessary labour*. The other part of the working day during which surplus value is created Marx called *surplus labour time* and the labour expended during it *surplus labour*.

The ratio $\frac{s}{v}$ can be expressed as the ratio of surplus labour time to necessary labour time or of surplus labour to necessary labour. From that it follows that the *rate of surplus value is an exact expression of the degree of exploitation of labour power by capital, or of worker by capitalist*. It shows in what proportion the new value is divided between capitalist and worker, and what portion of the working day a worker works for himself and what portion for the capitalist. In his article "Workers' Earnings and Capitalist Profits in Russia", Lenin calculated from the statistics that the degree of exploitation of workers in Russia in 1908, i.e. the rate of surplus value, exceeded 100 per cent. "Each worker," he wrote, "receives, on the average, 246 rubles a year, but he brings the capitalist an average profit of 252 rubles a year.

"It follows that the worker works *the lesser part* of the day for himself and *the greater part of it* for the capitalist."[1]

The degree of exploitation of the working class has increased considerably today in all capitalist countries. Economists have calculated that the rate of surplus value in the manufacturing industry in the USA increased from 96 per cent in 1849 to 309 per cent in 1965. In British industry, over the 25 years from 1938 to 1963, it increased from 170 to 238 per cent. In West German industry in the mid-1960s, the rate of surplus value reached 350 per cent, and in Japan was about 400 per cent.

Although the rate of surplus value is an exact expression of the degree of exploitation of the worker, it nevertheless cannot express the absolute magnitude of exploitation. The absolute magnitude of exploitation of workers is determined by the mass of surplus value. If we signify the mass of surplus value by S, the surplus value created by one worker by s, the variable capital advanced for the purchase of one man's labour power by v, and the sum total of variable capital by V, the formula for the mass of surplus value takes the following form:

$$S = \frac{s}{v} \times V.$$

This formula indicates that the total amount of surplus value will be greater, the higher the rate of surplus value and the greater the variable capital advanced (or the number of workers simultaneously exploited by the capitalist). Since the amount of each capitalist's capital is limited, he will always try to increase the degree of exploitation of the workers.

With the development of capitalism, the mass of surplus value has been constantly rising. In the USA, for example, according to *U. S. News and World Report*, the incomes of the largest corporations increased from 33 billion dollars in 1963 to 72 billion dollars in 1973, or by 120 per cent. In Great Britain, the profits of capitalists increased from 1,000 million pounds sterling in 1938 to 9,000 million pounds sterling in 1970, i.e. by 800 per cent.

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[1] V. I. Lenin, *Collected Works*, Vol. 18, p. 257.

3. TWO WAYS OF INCREASING THE DEGREE OF EXPLOITATION OF THE WORKING CLASS

In their constant drive to increase the rate and mass of surplus value, capitalists resort to two main ways of increasing the degree of exploitation.

Absolute Surplus Value

The first way consists in directly increasing the length of the working day. Let us assume that the working day is eight hours, four hours of which are necessary labour time and four hours are surplus labour time. This can be presented as follows:

$$\frac{\text{4 hours}}{\text{necessary time}} \qquad \frac{\text{4 hours}}{\text{surplus time}}.$$

In this example, the degree of exploitation will be:

$$s' = \frac{4s}{4v} \times 100 = 100 \text{ per cent.}$$

If the working day is increased from eight hours to ten, while the necessary labour time remains the same, surplus labour time will increase from four to six hours, and the degree of exploitation will be:

$$s' = \frac{6s}{4v} \times 100 = 150 \text{ per cent.}$$

Surplus value produced by increasing the length of the working day beyond the necessary time Marx called *absolute surplus value.* It can be obtained not only by directly increasing the length of the working day, but also by increasing the intensity of labour, which represents a concealed lengthening of the working day.

Capital knows no limits in its drive to increase surplus value. Every capitalist strives to increase the working day to the maximum, but it cannot be extended without limit; there are both physical and moral limits. First, a worker cannot work all the 24 hours of the day. He needs time to restore his labour power, i.e. time to rest, to eat, and so on. That determines the *physical limit to the working day.* Second, a worker

needs a certain amount of time to satisfy his various spiritual needs and to fulfil his social obligations, which depend on the degree of organisation of the working class. This determines the *moral* or *social limit to the working day*. A change in the length of the working day therefore takes place in accordance with these physical and social limits.

In reality, the length of the working day is established as a result of continuous and relentless class struggle between the proletariat and the bourgeoisie.

In the history of labour legislation there are two periods—one of legal lengthening of the working day and one of its legal shortening and limitation.

Capitalism arose, as we know, in the womb of feudal society. It developed then on the basis of primitive handicraft techniques that did not permit any significant increase of output without a lengthening of the working day. Increase in the length of the working day was the characteristic way of increasing the degree of exploitation of workers by capitalists in that period; and in accordance with the features of exploitation of that kind, laws were issued in most countries to lengthen the working day.

With the emergence of large-scale capitalist machine industry, petty commodity producers were squeezed out and ruined *en masse*, and unemployment developed and grew. It was then that the working day was at its longest. Every capitalist did his best to use his machinery to increase the degree of exploitation. The working day was extended to the maximum, going beyond its physical and moral limits. As Marx said, "capital celebrated its orgies".[1]

As the working class grew in numbers, however, and improved its organisation and developed class consciousness, the resistance of the proletariat became stronger and stronger, and a relentless struggle for legal limitation of the working day developed. "As soon as the working-class, stunned at first by the noise and turmoil of the new system of production, recovered, in some measure, its senses," Marx vividly described it, "its resistance began, and first in the native land of machinism, in England."[2]

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[1] Karl Marx, *Capital*, Vol. I, p. 264.
[2] Ibid.

First, the British working class succeeded in winning limitation of the working day for children, then for women and, finally, for men. Then other countries, too, followed Britain's path of legal limitation of the working day.

In tsarist Russia, as a result of stubborn strikes, fought under the leadership of Lenin's League of Struggle for the Emancipation of the Working Class, a law was promulgated on June 2, 1897, limiting the working day to 11.5 hours. Until then there had been no limit at all.

The General Congress of Labour in Baltimore (USA) and the Geneva Congress of the First International (1866) put forward the demand for an eight-hour working day. The slogan of the eight-hour day became the battle cry of the economic and political struggle of the proletariat.

The average working week today in the main capitalist countries is 40 to 46 hours. That average, however, conceals short-time working by one section of the workers and an excessively long working day for others.

The working day is extremely long in economically less developed countries and in colonies.

Relative Surplus Value

The productive forces grow and the possibility develops of increasing surplus value by another method, by reducing the necessary labour time for a given length of the working day. This is also brought about by the growing resistance of the working class fighting for reduction of the working day and against excessive intensification of labour. The surplus value that arises as a consequence of reduction of necessary labour time and the corresponding increase of surplus time Marx called *relative surplus value.*

Let us assume that the capitalists have succeeded in reducing necessary labour time to three hours and in correspondingly increasing surplus time to five hours. Then a working day takes the following form:

$$\frac{\text{3 hours}}{\text{necessary time}} \quad \frac{\text{5 hours}}{\text{surplus time}}.$$

The degree of exploitation increases and will be:

$$s' = \frac{5 \text{ hours of surplus time}}{3 \text{ hours of necessary time}} \times 100 = 167 \text{ per cent.}$$

How does a reduction of necessary labour time come about? During it, as we know, the value of labour power is reproduced. If we assume that labour power is sold as a commodity at its full value, then the only cause of a reduction in necessary labour time can be a fall in the value of labour power.

The value of labour power is determined by the value of the means of subsistence necessary for its reproduction; a fall in the value of labour power can therefore be achieved only by way of a fall in the values of the commodities consumed by the worker and his family (food, clothing, footwear, house rent, domestic appliances and furniture and so on).

A fall in the value of the consumer goods is achieved, in turn, through increasing labour productivity in the industries making these goods or in the industries producing means of production for making consumer goods.

Thus, an increase in the productivity of social labour reduces the value of the consumer goods and leads to a fall in the value of labour power, and the necessary labour time is correspondingly reduced. The same quantity of the means of subsistence needed by the worker is produced in a fewer number of hours, in three instead of four, for example. Surplus time is therefore lengthened from four to five hours.

Extra Surplus Value

One variety of relative surplus value is *extra surplus value.* Improvement in the process of production and raising of the productivity of labour do not take place simultaneously in all the enterprises of any particular industry. A rise in labour productivity in any enterprise leads to a fall in the individual value of the commodity.

Let us assume that, in the majority of textile mills, a worker produces an average of 100 metres of cloth in eight hours, creating new value equal to ten dollars, five of which constitute the value of labour power and five are surplus value. In

that case, the average or social value of one metre of cloth will be ten cents (for simplicity we take only new value into account, ignoring the means of production consumed).

Let us further assume that some individual capitalist has succeeded in doubling the labour productivity of the workers. Then, in his mill, a worker will produce 200 metres of cloth in eight hours. The newly-created value of ten dollars will now be embodied in 200 metres of cloth and the individual value of one metre to this capitalist is five cents. The capitalist, however, will sell his commodity not at its individual value, but at its social value, as before, i.e. at ten cents a metre, and will receive 20 dollars for his 200 metres of cloth, five of which he pays the worker, five represent the usual surplus value, and ten dollars are the extra surplus value.

The difference between the social value of a commodity and its lower individual value constitutes an extra (or additional) surplus value. We call it extra because it exceeds the usual or normal surplus value. In order to conquer the market and increase the sale of his commodities, the capitalist can sell his commodity at a little below its social value, but above its individual value, and still receive extra surplus value.

In this way, extra surplus value arises as a consequence of an increase in labour productivity in individual enterprises compared with the average social productivity of labour in the industry as a whole. Where the worker had previously worked half of the working day for himself and half for the capitalist, he now reproduces the value of his labour power (five dollars) in two hours and in the other six hours creates surplus value equal to 15 dollars. The necessary labour time in that enterprise has, consequently, been cut from four hours to two, while surplus time has increased from four hours to six. The degree of exploitation has grown from 100 to 300 per cent.

$$s' = \frac{6\,s}{2\,v} \times 100 = 300 \text{ per cent.}$$

Individual capitalists appropriate extra surplus value until the new improvement in production becomes common. The desire to ensure himself extra surplus value prompts every capitalist to improve the technology and organisation of pro-

duction and to raise the productivity of labour. This finally leads to an overall increase in labour productivity and to a fall in the social value of a unit of output. As soon as any improvement spreads to the majority of enterprises in the industry, extra surplus value disappears. It reappears in individual enterprises as a result of the introduction of new and even more advanced technology.

The overall increase in labour productivity and fall in the value of commodities needed as means of subsistence for the workers engender an overall fall in the value of labour power which, in turn, leads to a reduction of necessary labour time. As a result, relative surplus value and the general rate of surplus value increase for all capitalists.

Extra surplus value is a most important stimulus for the development of productive forces under capitalism.

The Marxist theory of relative surplus value shows that, with an increase in labour productivity, the degree of exploitation of workers increases steeply, which leads to deepening and sharpening of the antagonistic contradiction between labour and capital.

Unity of and Difference between Absolute and Relative Surplus Value

Absolute surplus value forms the general foundation of the capitalist mode of production. Production of absolute surplus value was characteristic of the early stages of its emergence and development, when capitalist exploitation was based on old craft techniques. Under those conditions, an increase in the degree of exploitation could mainly be ensured by lengthening the working day and increasing the intensity of labour.

Later, this method of intensifying exploitation came up against social, technical and economic barriers. The self-expansion of value came into conflict with the old craft basis, which was resolved by creation of the new, more advanced technical base of capitalism. The production of relative surplus value developed on this basis. Machine industry permitted an increase in the degree of exploitation without extending the working day, but the machine gave capitalists the chance to

increase the intensity of labour enormously, i.e. the expenditure of labour power per unit of time. An increase in the intensity of labour in individual enterprises is, in essence, a concealed form of extension of the working day and is a way of producing absolute surplus value. When the intensity of labour rises in the majority of enterprises, the level of the average intensity of labour for the whole of society rises, which is the same thing as an increase in the productivity of social labour and the production of relative surplus value. Absolute surplus value and relative surplus value are closely interconnected and interwoven with each other, and there is a certain unity between them. "From one standpoint," Marx said, "any distinction between absolute and relative surplus-value appears illusory. Relative surplus-value is absolute, since it compels the absolute prolongation of the working-day beyond the labour-time necessary to the existence of the labourer himself. Absolute surplus-value is relative, since it makes necessary such a development of the productiveness of labour, as will allow of the necessary labour-time being confined to a portion of the working-day."[1]

The source of both absolute and relative surplus value is the surplus labour of the worker.

At the same time, there are significant differences between absolute and relative surplus value. When it is a matter of increasing the rate of surplus value, the difference between the two is immediately evident. At a given level of labour productivity, the rate of surplus value can only be raised through an absolute prolongation of the working day or a rise in the intensity of labour. At the same time, with given limits on the length of the working day and a given level of intensity of labour, the rate of surplus value can only be raised through reducing necessary labour time and correspondingly increasing surplus labour time, and this presupposes a change in the productivity of labour.

The difference between the methods of producing surplus value is not only of theoretical importance, but also has great practical significance for the class struggle of the proletariat. The production of absolute surplus value, connected with lengthening of the working day and intensification of labour,

[1] Karl Marx, *Capital*, Vol. I, pp. 478-79.

is obvious evidence of an intensification of exploitation; but the production of relative surplus value camouflages the increase in the degree of exploitation of wage workers.

4. THE THREE STAGES OF THE DEVELOPMENT OF CAPITALISM IN INDUSTRY

When analysing the production of relative surplus value, Marx investigated the following three main historical stages of increasing productivity of labour under capitalism: (1) simple co-operation; (2) division of labour and manufacture; (3) machines and large-scale industry.

Capitalist Simple Co-operation

By co-operation Marx meant the form of organisation of work under which many people take part together in one and the same labour process or in different, but interconnected, labour processes.

Simple capitalist co-operation is the first stage of the development of capitalism in industry. At this stage the capitalist workshop differed from that of the petty commodity producer only in the larger number of workers employed at one time. There was still no division of labour. All workers did the same type of work. But even simple co-operation had important economic advantages over individual handicraft production.

With co-operation, the distinctions between individual labour operations were smoothed out. Expenditure of labour approximated to the average social expenditure. The production and sale of commodities by capitalists, therefore, acquired a more stable character. Co-operation led to significant economics in the means of production, owing to their joint use in the labour process. It was cheaper, for example, to build and maintain one workshop for 20 workers than to build ten workshops for two workers each. It also gave the opportunity of concentrating masses of labour in separate sectors and of ensuring continuity of the labour process. Co-operation made it possible to fulfil seasonal and urgent work

(harvesting, sheep shearing and so on) using much labour power over a short period of time. It encouraged a significant increase in the productivity of the workers. In co-operation, Marx wrote, "mere social contact begets in most industries an emulation and a stimulation of the animal spirits that heighten the efficiency of each individual workman".[1] At the same time, co-operation created the new productive power of social labour, the consequence of joint labour. This social productive power appeared as the productive power of capital, and the capitalist appropriated its results as a gift.

Thus, simple capitalist co-operation promoted raising of the productivity of labour and lowering of the value of labour power, and so increased relative surplus value.

In the course of the competitive struggle and race between capitalists for surplus value, simple co-operation evolved into capitalist manufacture.

Division of Labour and Manufacture

Manufacture is the second stage in the development of capitalism in industry. By manufacture we mean capitalist co-operation based on manual techniques and division of labour within the workshop.

Manufacture arose in two ways. (1) Capitalists brought together workers with different trades or crafts into one workshop to produce a single type of product. For the production of carriages, for example, the capitalist combined previously independent craftsmen and artificers in one workshop, such as wheelwrights, coppersmiths, upholsterers, glaziers, varnishers, polishers, gilders, etc. (2) The capitalists combined artificers with one and the same speciality in one workshop. In this case, the process of production was broken down into a series of separate operations, each of which became the exclusive function of an individual worker (in the production of needles, for example, one worker drew the wire, a second cut it, a third ground it, and so on).

In both cases, the specialisation of workers took place on the basis of division of labour. Each worker made some one detail or performed a single special operation, and in that way

[1] Karl Marx, *Capital*, Vol. I, p. 309.

became a detail worker who gradually lost his ability to carry on his old craft to its full extent.

Depending on its internal structure, manufacture had two forms, heterogeneous and serial. In *heterogeneous manufacture*, the division of labour among workers was mainly according to the individual details from which the finished product (carriages, trunks, etc.) was assembled. In *serial manufacture*, the division of labour was according to the operation (in the manufacture of needles, for example, the wire passed through the hands of 72 or sometimes even 92 specialised or detail workers).

With division of labour, the worker performed one and the same operation all the time, and that raised the intensity and productivity of labour. Specialisation and improvement of tools were taking place simultaneously. For the craftsman, the same implement or tool was often used for completely different operations. In manufacture, as a consequence of the division of labour, tools became differentiated and were adapted to the performance of specific operations. In Birmingham, for example, in the manufacturing period, about 500 types of hammer alone were in use.

Specialisation of the tools and implements of labour, and of workers, developed the new productive power of social labour. At the same time, the domination of labour by capital became stronger and the production of relative surplus value increased. Manufacture impoverished the worker spiritually and maimed him physically. In the production process of manufacture, a further separation of mental and physical labour took place.

Manufacture was the first form of large-scale industry. Many small establishments, however, existed alongside big capitalist enterprises. Very often these small enterprises became simply departments of capitalist manufactories. *Capitalist outwork*, sometimes called *domestic or cottage industry* or the putting-out system, developed greatly during the manufacturing period. In his *The Development of Capitalism in Russia*, Lenin summarised an enormous amount of factual material on Russian manufacture and demonstrated that a large number of workers fulfilled orders from large manufactories, working at home. For a small wage, the outworker and all the members of his family worked in insanitary

conditions for 16 to 18 hours a day, fulfilling an order from a manufactory. Taking advantage of the lack of organisation among these workers, the capitalists dictated their own terms to them, increasing the degree of exploitation in every way possible. Outworkers often became totally dependent on the boss and on numerous intermediaries—buyers-up, putters-out and usurers.

Manufacture did not complete the revolution in the technical basis of production. Its foundation remained manual techniques. This narrow technical basis brought the development of manufacture at a certain stage into conflict with the needs of expanding production and the market. In order to extract more surplus value, capitalists began to improve manufacturing production and gradually went over to machine industry.

The historical significance of manufacture was that it prepared the ground for the transition to the next stage of the development of capitalism, i.e. to large-scale machine industry. (1) Manufacture trained skilled workers. Lenin wrote in his *The Development of Capitalism in Russia* that large-scale machine industry would not have developed so rapidly if there had not been a long period during which workers had been trained by manufacture. (2) The high degree of specialisation of the implements of labour achieved in the manufacturing period, the simplification and detailed elaboration of tools and their adaptation to separate partial operations created the material conditions for the emergence of machines.

The Capitalist Factory

Production based on the employment of machines is the third stage of the development of capitalism in industry. Marx showed that all developed machinery consists of three parts, the motor mechanism or prime-mover, the transmitting mechanism, and the tool or working machine. The tool or working machine is the main part of a developed system of machines. It acts directly on the object of labour and imparts the properties of use value to it. The two other parts of

a machine, the motor mechanism and the transmission, are there solely to set the tool or working machine in motion.

The working machine is a mechanism that can operate many different or similar tools or implements at the same time. The spinning jenny, for example, even in its first years operated with 12 to 18 spindles, and the stocking frame knitted with thousands of needles.

The working machine was put into motion at first by the power of a man or a beast, or of wind or water. Its development and increase in size, however, insistently demanded a mightier motive power, not dependent on natural conditions. A revolution in the motor mechanism took place with the invention of the steam engine.

For a long time, machines were made by manual labour on the basis of manufacturing techniques, which held back the development and improvement of machine production. This contradiction was resolved when machines began to be produced by machines, and their fabrication by hand was replaced by factory production.

On the basis of large-scale machine industry, there developed co-operation of similar or different working machines set in motion by a prime-mover, thus the factory emerged. *The capitalist factory* is a large industrial enterprise, based on the use of a system of machinery. "As soon as a machine executes, without man's help, all the movements requisite to elaborate the raw material, needing only attendance from him," Marx pointed out, "we have an automatic system of machinery."[1]

With the development of machine industry, the machine and its components underwent fundamental changes. In our day, science and technology have made great advances. Powerful new machines have been introduced into industry, electricity is employed on a wide scale, complex all-round mechanisation and automation are being carried out, and atomic energy is being used. A fourth part has now been added to the three parts of machinery (motor, transmission and working machine)—a control and regulating mechanism. Special instruments, instead of man, control technological operations and regulate them. But neither the complex

[1] Karl Marx, *Capital*, Vol. I, p. 360.

mechanisation nor the automation of production means complete elimination of the worker. On the contrary, his functions become more complex and call for even greater intensity of labour. The worker controls the production process, supervises the working of machines and apparatus, adjusts them and eliminates breakages, and so on.

The capitalist factory is the highest form of capitalist co-operation of labour. In it capital exercises its dominion over labour to the limit. In the labour process, the whole complex system of machinery is opposed to the worker and economically predominates over living labour power, transforming workers into obedient slaves. Under capitalism, the machine is an instrument for exploiting workers, a means by which the capitalists extract surplus value.

The Industrial Revolution

The industrial revolution began with the invention and application of working machines and was completed with the production of machines by machines. In Western Europe, it covered the period from the second half of the eighteenth century to the middle of the nineteenth century.

Large-scale machine industry arose first in Great Britain, and began later to develop in the other countries of Europe and in the USA. In Russia, the industrial revolution took place later. Many inventions and discoveries of world significance made by Russian scientists and technicians found no application in their country at the time.

The industrial revolution, as a result of which large-scale machine industry develops, means industrialisation of a particular country. Industrialisation is such a development of industry as a whole that it, and above all heavy industry, becomes the main branch of the economy. In capitalist countries, industrialisation usually began with light industry, in which capital has a more rapid turnover than in heavy industry and, consequently, brings in quicker profits. Only after a long period of profit accumulation in light industry did capitalists begin to invest capital in heavy industry.

Capitalist industry was created both through exploitation of the workers within the countries and through the influx

of resources from outside. The development of industry in Great Britain, for example, was largely brought about by the plunder of colonies. One of the sources of industrialisation in Germany was the war indemnity of 5,000 million francs paid by France after its defeat in the Franco-Prussian War of 1871. The industry of the USA was founded on foreign loans, cruel exploitation of the Blacks and on plunder of enslaved nations. Tsarist Russia tried to develop its industry by attracting foreign capital.

With the creation of large-scale machine industry capitalism was finally victorious over feudalism and became the dominant mode of production. "Modern Industry," Marx wrote, "had therefore itself to take in hand the machine, its characteristic instrument of production, and to construct machines by machines. It was not till it did this, that it built up for itself a fitting technical foundation, and stood on its own feet."[1]

The transition from manufacture to the factory signified a complete technical revolution, leading to a sharp break in social relations of production. All the dark sides of capitalism were exposed, while the contradictions between labour and capital became vastly deeper.

The Limits and Contradictions of the Capitalist Use of Machines

The transition from handicraft tools to machines and the transformation of manufacturing industry into large-scale machine industry was, without doubt, an enormous stride forward in the development of the productive forces of human society. The machine itself vastly economises on and lightens labour. It is a powerful means by which man can tame the forces of nature and increase the productivity of labour. Under capitalism, however, the machine is used as a means of extorting an ever growing amount of unpaid labour from wage workers. The capitalist is not interested in economising on labour in general, but in saving on payment for labour power. He will use a machine only if it costs him less than the labour power it replaces.

[1] Karl Marx, *Capital*, Vol. I, p. 363.

The production of a machine, for example, takes 3,000 hours of labour. Let us assume that its use over its whole operative life replaces 5,000 hours of living labour. In that case, the use of the machine saves society 2,000 hours of labour. The capitalist, however, does not pay the full value of the labour of a worker. If the rate of surplus value is 100 per cent, the paid labour is only 2,500 hours while the machine takes 3,000 hours. So the machine will not be used in a capitalist enterprise.

Capitalists use machinery to increase production of surplus value. But, as a result of its mass use, the amount of the surplus value produced by capitals of the same size does not increase; on the contrary, it falls. That is because machines squeeze workers out and the number of workers exploited by a capital of given size decreases. With the help of the machine, the capitalist receives more surplus value from each remaining worker than before; but the mass of surplus value does not depend solely on the degree of exploitation, but also on the number of workers exploited. If fewer workers are exploited, the mass of surplus value produced by the advanced capital also decreases. This contradiction in the capitalist use of machines prompts capitalists to intensify exploitation.

The scientific and technical revolution now developing is opening up new opportunities for extending man's power over nature and developing the productive forces.

Bourgeois economists and reformists consider it the "second industrial revolution", which will allegedly fundamentally alter the social nature of capitalism and usher in an "era of permanent prosperity". Automation and the latest technology are a leap forward in the development of the productive forces of society, but automation of industry under capitalism comes up against the narrow bounds of bourgeois relations of production. As a result of automation, the profits of capitalists are increased, the numbers of unemployed rise, and small producers are ruined. The contemporary scientific and technical revolution is taking place in the period of capitalism's decline, when bourgeois relations of production are becoming a serious brake on development of the productive forces, and the most important advances of science and technology are being used not to increase production of material wealth, but

in the arms race, leading to an increase in unproductive military consumption. Only the revolutionary replacement of capitalism by socialism opens up unlimited opportunities for development of the productive forces.

The Direct Effect of Capitalist Machine Industry on the Worker's Position

With the development of large-scale machine industry, exploitation of the working class rose steeply. Marx emphasised that "the labour of women and children was, therefore, the first thing sought for by capitalists who used machinery".[1] With the use of machines, it became possible to employ workers with slight muscular strength and whose physical development was not yet complete. The use of female and child labour, Marx said, altered "the contract between the labourer and the capitalist, which formally fixes their mutual relations".[2] Previously, the workman sold only his own labour power, but now the capitalist dragged his wife and children into the factory, too.

The value of labour power is determined by the labour time necessary for the existence not only of the individual adult worker, but also of his family. With the employment of female and child labour, the value of labour power falls, since it is distributed among all the working members of the family.

Machinery "becomes in the hands of capital the most powerful means ... for lengthening the working-day beyond all bounds set by human nature".[3] The longer it operates and the more it produces, the smaller the part of its value transferred to each unit of output. The value of machinery is transferred to and appears in the new commodity only when it is in use. This prompts the capitalist to lengthen the working day, to introduce additional shifts and to speed up the rate of work so that the value of the machine will be transferred as soon as possible.

In their pursuit of extra surplus value, capitalists increase the intensity of labour and employ the most varied methods

[1] Karl Marx, *Capital*, Vol. I, p. 372.
[2] Ibid., p. 373.
[3] Ibid., p. 380.

of increasing exploitation of the workers–increasing the number of machines under the control of one worker, introducing conveyors, using sweating systems of payment, and so on.

Under the conditions of capitalist machine industry, mental labour becomes separated from physical labour and the contrast between them is vastly deepened. All the achievements of science and engineering are used to intensify exploitation and to enrich the capitalists.

Capitalist use of machinery is one of the causes giving rise to a relative excess of the working population and to unemployment.

Thus, the capitalist use of machinery leads to unbridled intensification of the exploitation of the working class. "Machinery, considered alone," Marx wrote, "shortens the hours of labour, but, when in the service of capital, lengthens them; ...in itself it lightens labour, but when employed by capital, heightens the intensity of labour; ... in itself it is a victory of man over the forces of Nature, but in the hands of capital, makes man the slave of those forces; ... in itself it increases the wealth of the producers, but in the hands of capital, makes them paupers...."[1]

The Basic Contradiction of Capitalism

In comparison with feudal society, capitalism has developed the productive forces enormously and has imparted a social character to the process of production. And it has led to an unprecedented concentration of production. In the place of handicraft workshops there appeared huge mills and factories equipped with modern machinery in which hundreds and thousands of wage workers work. At the same time, the social division of labour and the interconnections and interdependence of different enterprises and industries have become deeper and broader. Capitalism constantly reduces the proportion of the population employed in agriculture and replenishes the ranks of the proletariat.

The process by which production becomes increasingly socialised under capitalism is one of the causes of the emer-

[1] Karl Marx, *Capital*, Vol. I, p. 416.

gence and sharpening of the *basic contradiction of this mode of production, i.e. the contradiction between the social character of production and the private capitalist form of appropriation.* Production increasingly takes on a social character, while the means of production and the products constitute the private property of individual capitalists. "All production processes thus merge into a single social production process," Lenin wrote in *What the "Friends of the People" Are and How They Fight the Social-Democrats,* "yet each branch is conducted by a separate capitalist, it depends on him and the social products are his private property. Is it not clear that the form of production comes into irreconcilable contradiction with the form of appropriation?"[1]

But the socialisation of labour by capitalism is accompanied by a strengthening of competition and a splitting of the whole of society into major groups occupying diametrically opposite positions in production, and gives a tremendous impetus to union within each group.

In developing the productive forces and imparting a social character to the production process, capitalism has thus created the material and subjective conditions for its revolutionary replacement by socialism. As capitalism develops, the working class grows, uniting and organising for struggle against capital. The historical mission of the working class is the overthrow of capitalism and the building of communism.

5. WAGES UNDER CAPITALISM

The Essence of Wages

Under capitalism, as explained above, labour power becomes a commodity with a specific value and use value. The value of this commodity, labour power, in money terms is its price. The value and price of labour power are expressed directly in wages. The sum of money that the worker receives as wages outwardly appears to be the value or price of labour. The form of wages creates the deception that the

[1] V. I. Lenin, *Collected Works,* Vol. 1, p. 177.

capitalist is paying for all the labour expended by the worker.

In revealing the essence of capitalist exploitation, Marx gave the first scientific definition of wages. He called them *"a converted form of the value or price of labour power"*,[1] since on the surface of bourgeois society, they appear as payment for the work performed, i.e. for all the labour of the worker. There are a number of reasons for this. (1) There is the very nature of production relations under capitalism and the special features of capitalist exploitation. Under capitalism, the division of the working day into necessary and surplus labour time is concealed, veiled by the relations of the purchase and sale of labour power. (2) There are the forms and periods of payment for labour power. The worker receives his wage only after finishing work, and for him it appears as payment for the whole working day. In actual fact, the worker advances his labour to the capitalist, spending it before he receives his wages. (3) With a change in the length of the working day, the magnitude of the wage also changes. Wages are paid for the time that has actually been worked, or for the number of objects produced on a piece-rate basis. Because of that they camouflage the exploitation of workers by capitalists.

Marx was the first to establish the difference between labour power and labour, demonstrating scientifically that it is not labour that is the commodity, but labour power. Why is it that the labour of a worker cannot be a commodity?

(1) Labour creates value but itself has no value. The assumption that labour is a commodity and has value leads to the absurd. We know that value is the labour embodied in commodities; if labour itself had value, it would follow that labour was created by labour.

(2) If the capitalist paid fully for the labour of the worker, there would then be no surplus value, and it would be impossible for the capitalist mode of production itself to exist.

(3) When a capitalist hires a worker, the labour does not as yet exist. So he is buying not labour, but only the capacity to work, i.e. labour power. Labour is the productive application of labour power in production, i.e. after the worker

[1] Karl Marx, *Capital*, Vol. I, p. 551.

has already sold his labour power, so that his labour and its result already belong to the capitalist and not to him.

In the productive process the worker creates value greater than that of his labour power. Consequently, wages are a part of the newly-created value although, on the surface of bourgeois society, it is represented as payment for all the labour. "Wages," Marx therefore pointed out, "are not what they *appear* to be, namely, the *value*, or *price, of labour*, but only a masked form for the *value*, or *price, of labour power*."[1]

The Main Forms of Wages

The essence of wages under capitalism is manifested directly in their forms, which are mainly time wages and piece wages.

Time wages are the form of wages when the amount of a worker's pay depends on the actual time worked by him (hour, day, week or month). They therefore appear directly in the form of hourly, daily, weekly or monthly payments. The unit of measurement of a worker's payment with time wages is the price of a working hour or the price of labour. Marx introduced the concept "price of labour" in order to determine the actual amount of time payment. The price of labour is a special form of expression of the value of labour power. It is the ratio between the daily value of labour power and the number of hours in the working day. If, for example, the daily value of labour power is four dollars and the working day consists of eight hours, the price of an hour of labour will be 50 cents:

$$\frac{4.00 \text{ dollars} \times 100 \text{ cents}}{8} = \frac{400 \text{ cents}}{8} = 50 \text{ cents}.$$

The price of labour thus expresses the price of a working hour.

With time wages, an increase in the degree of exploitation of a worker is achieved by way of a decrease in the price of labour. If, for example, with prolongation of the working

[1] Karl Marx, "Critique of the Gotha Programme". In: Karl Marx and Frederick Engels, *Selected Works*, in three volumes, Vol. 3, p. 23.

day, or, what is the same thing, an increase in the intensity of labour, the time wage remains unchanged, the price of one hour will fall. If the wage is four dollars, but the working day is lengthened from eight to ten hours, the price of an hour of labour falls from 50 to 40 cents:

$$\frac{4.00 \text{ dollars} \times 100 \text{ cents}}{10 \text{ hours}} = 40 \text{ cents.}$$

Time wages can rise but the price of labour will remain unchanged or even fall. If wages rise from four to four and a half dollars, while the working day is increased from eight to ten hours, the price of an hour of labour falls from 50 cents to 45. Under present-day conditions, a fall in the price of labour is usually achieved by increasing the intensity of labour.

Capitalists make wide use of hourly payment of workers. Under this system, the length of the working day and the amount of time wages are not fixed in advance, but only the price of a working hour. This makes it possible, in certain circumstances, to reduce the working day or to introduce short-time working and so cut wages correspondingly. The worker and his family, consequently, lose the possibility of supporting themselves normally. In the USA, for example, about a fifth of all workers work less than a full week and receive reduced wages. Thus, the worker suffers both ways, either from a lengthening of the working day or from a shortening of it.

Time wages have the special feature that they do not depend directly on the productivity and intensity of the worker's labour and the worker has no interest in raising productivity. But, with modern technology, capitalists introduce working regimes for machines and such controls as ensure high intensity of labour, regardless of the wishes of the workers.

Piece wages, unlike time wages, are determined by the number of articles or parts produced in a unit of time. In this case, a work norm or quota is established, i.e. the number of articles to be produced in a day, and a rate for each article.

As Marx pointed out, piece wages are a converted form of time wages. In establishing rates, capitalists start from the

size of the daily wage and the number of articles made in the course of the working day. As a rule, the norm is established on the basis of the work done by the most skilled and strongest time-wage workers during a working day.

Piece wages, even more so than time wages, conceal exploitation of the worker, since they create the impression that he is no longer being paid for his labour but for the product of his labour and at a price equal to all the newly-created value.

Piece wages serve as a means of intensifying labour. When piece rates are established, the daily wages of workers depend on the number of articles produced. If, for example, a worker makes eight of a particular article in a day and receives a daily wage of four dollars (50 cents an article), then, if he increases his output to ten articles a day, he will receive five dollars in wages. But once many workers have increased their output to ten articles a day, the capitalist reduces the piece rate and wages fall. Piece work, Marx noted, has "a tendency, while raising individual wages above the average, to lower this average itself".[1] With piece work the need to maintain a staff of overseers disappears. The form of payment itself forces workers to produce as much as possible and to work with the greatest intensity.

Sweating Systems of Payment

Various systems and forms of wages have been employed, depending on the concrete historical conditions. The main aim has always been to increase the intensity of labour and the degree of exploitation of the workers as much as possible. Piece rates lend themselves to various sweating systems, as in the notorious sweatshops and putting out systems of the nineteenth century. Modern piece-rate systems based on time and motion study are also sweating systems; the first of them was the *Taylor system.*

At the beginning of the century, the American engineer F. W. Taylor developed a new system of organising work and wages and applied it in American enterprises. When

[1] Karl Marx, *Capital*, Vol. I, p. 520.

this system was being introduced in a factory, a group of specially selected workers was taken and by means of time study, the number of minutes, seconds and fractions of seconds of the working time they spent on each job operation was established. The data obtained were analysed to eliminate all superfluous movements on the part of the worker. On this basis, very high work norm or "job" was set. Higher piece rates were fixed for fulfilment and overfulfilment of the "job", and for those who did not, very low "punitive" rates were set. Only a few of the strongest and most skilled workers were able to fulfil the "job". Lenin called the Taylor system a scientific system of squeezing sweat out of the worker. At the same time he noted that in itself scientific work organisation had progressive significance.

As labour processes became more mechanised, a system of work organisation and wages known as *Fordism* became common. It was first employed and advertised in 1914 as a "system of high wages". The American millionaire Henry Ford employed a system of production based on the assembly line in his motor works. By increasing the speed of the line, an enormous intensification of labour was achieved. Not all workers could stand the excessive strain caused by the increased speed of the conveyor. The work of the worker employed in a monotonous, detail operation became an extremely exhausting process, not requiring high skill. The widespread application of assembly line and conveyor systems in capitalist countries was accompanied by a steep increase in the number of accidents and in industrial illness.

In a number of capitalist countries, *"profit-sharing" systems* are common. Under them, wages consist of two parts: the basic–time or piece wages, and an additional part that the capitalist pays to the worker at the end of the year as a "share of the profits" of the enterprise. In reality, however, the worker receives part of his own wages as "profit-sharing", since the basic wage is established at a reduced level. But the impression is created that the worker shares in the distribution of profits with the capitalist, and is equally interested in increasing the profitability of the enterprise. The aim of the system is to ensure maximum profits for the capitalists, and to distract workers from participation in the class struggle.

Various *"bonus" forms of wages* were developed in the systems of Halsey, Gantt, Rowan, and others. All of them envisaged a steep increase in the intensity of labour and an actual decrease in payment for work above the established norm. The basic wage is paid for work performed within the norm, while "bonuses" are paid for overfulfilment. Under these systems, wages increase at a much slower rate than the degree to which the worker overfulfils the established work norm. Underlying the Halsey system, for example, is the principle of bonus payments for "time-saving" in addition to the average payment per hour of labour. But the bonus is not paid at the full hourly rate, but at a third or a half of it. The result is that the more labour is intensified, the lower the hourly rate of payment.

In connection with technical progress in the economies of industrially developed capitalist countries, the forms of payment for labour power also change. Along with the introduction of new sweating systems, the old forms of wages also undergo modification. For example, as a result of the widespread mechanisation and automation of production processes and the introduction of conveyor systems, the proportion of time wages has increased significantly. At present, wage systems are used that not only stimulate increase of output, but also take other factors into account.

In the main capitalist countries, *"analytical job evaluation"* has become common. It consists in essence in a quantitative point system based on a scale of indices (factors) characterising the complexity of the different operations and the requirements that the worker must satisfy. All types of job are evaluated according to numerous factors, e.g. how heavy it is, the skill of the operative, the mental and physical energy spent on the work, the operative's responsibility for the use of equipment, materials, and so on. The earnings of a worker whose job is evaluated with the lowest number of points are taken as the basis of the wage scale. To evaluate the jobs of others, a correction is used that depends on the points characterising any particular type of work. On the basis of "analytical job evaluations", a multiplicity of individual wage rates is established. Thus, in the Huckingem steelworks (West Germany), which has 5,000 workers, more than a thousand wage rates are used. Under these conditions, the appearance

of careful substantiation of the magnitude of wages is created when, in actual fact, they depend on many arbitrary indices that make it more difficult for workers to check the correct calculation of their earnings. Capitalists strive to use this system so as to make it more difficult for workers to organise, and to distract them from participation in the class struggle. It is no accident that the factors determining the wage level include such things as "inclination to collaborate", "general behaviour", "general reliability", etc.

Nominal and Real Wages

The magnitude of wages is the basic index of the standard of living of the working class. Nominal and real wages must be distinguished. *Nominal wages* are the sum of money received by a worker for the sale of his labour power. *Real wages* are the amount of goods and services that he can actually buy with his money wages. The level of real wages consequently depends, first, on the size of nominal or money earnings and, second, on the price level of the means of subsistence needed by the worker. A change in nominal wages does not coincide with the movement of real wages.

Real wages, under capitalism, when viewed over a long period, have a tendency to fall. "The general tendency of capitalist production," Marx put it, "is not to raise, but to sink the average standard of wages."[1] This tendency, however, should not be understood simply as an absolute sinking of the quantity of the worker's means of subsistence. The level of real wages is determined by a host of factors, often operating in opposite directions. It is directly connected with changes in the value of labour power, growth of unemployment and increase of the intensity of labour, a rise in the proportion of low-paid female and child labour, and so on. The movement of wages can therefore only be considered and correctly understood in connection with analysis of the process of capital accumulation.

Wage levels differ in various capitalist countries, which is

[1] Karl Marx and Frederick Engels, *Selected Works*, in three volumes, Vol. 2, p. 75.

mainly explained by a difference in the value of labour power. Marx pointed out that, when elucidating the reasons for national differences in wages, all factors causing changes in the value of labour power must be taken into account. Wages are particularly low in the developing countries, which is one of the grave consequences of colonialism. According to official United Nations data, the wages of an African worker at the present time are, on average, not more than a tenth of those of West European workers.

Critique of Bourgeois Theories of Wages

Bourgeois political economy strove, and is still striving, to refute the Marxist theory of wages. The apologists of capitalism have "invented" many wage theories aimed at concealing the essence of capitalist exploitation. Nearly all bourgeois economists and sociologists agree that the worker sells not his labour power, but his labour, and receives payment for his labour or "the full product of his labour".

At the beginning of this century, M. I. Tugan-Baranovsky produced a *"social" theory of wages.* He claimed that labour power was not a commodity and therefore had no value and no price, while wages were part of the total social product. The wage level, according to him, was determined by two factors–(a) by the productivity of the social labour creating the total product, and (b) by the social strength of the working class, on which the share of the social product at the disposal of the workers depended.

The social theory of wages and its variants are still widely employed in the works of bourgeois ideologists and reformist theoreticians. For example, John Strachey claimed, in his *Contemporary Capitalism,* that the working class is able to use a rise in labour productivity under contemporary capitalism to improve its own well-being, and that the distribution of wealth between the different classes takes place in the interests of society as a whole.

Supporters of the social theory claim that the raising of wages depends on growth of labour productivity. In actual fact, under capitalism, a rise in the productivity of labour leads to a fall in the value of labour power and, correspondingly,

to an increase in surplus value. Numerous facts confirm that the wage level falls a long way behind the rate of increase of productivity. The economic struggle of the working class (its "social strength") can at best bring wages somewhat closer to the value of labour power. The value of labour power is the upper limit of wages.

Another widely held version of bourgeois wage theory is the *theory of "regulated" wages.* Its most eminent representative was J. M. Keynes. According to his theory, the state and the trade unions play the decisive role in the regulation of wages. The state by its labour legislation, and the trade unions through collective bargaining with employers, are able to determine and establish the level of wages.

Keynes considered it necessary to pursue a policy of lowering real wages, allegedly to combat unemployment, stating openly that an increase in the level of employment of the working population could only come about through a fall in real wage rates. He tried to justify his proposals by a "marginal productivity" theory by which wages were determined by marginal, i.e. the lowest, labour productivity. In his opinion, it was risky to cut nominal wages directly, since that would provoke resistance on the part of the working class. He therefore recommended the bourgeois state to pursue a policy of "freezing" nominal wages and reducing real wages by means of inflation.

The theory of "regulated" wages denies the objective economic laws determining wages under capitalism. It is a false theory advocating the idea of co-operation between workers and capitalists, and harmony of the interests of capital and labour. It is aimed at diverting the working class from revolutionary struggle.

Contemporary bourgeois economists and right-wing Socialists, in striving to justify "wage-freeze" policies, began to propagate the *theory of the "vicious circle" or "inflationary spiral of wages and prices"*, the essence of which is that an increase in wages inevitably leads to a rise in the prices of commodities, while the rise in prices, in turn, must lead to an increase in wages and so on, the result being a vicious circle. The apologists of contemporary capitalism endeavour to convince workers that it is pointless to struggle for wage increases. In actual fact, price rises are connected not with

wage increases, but with the raising of prices by monopolies and the policy of inflation pursued by bourgeois states in the interests of the exploiting classes.

The Working Class's Struggle for Wage Increases

As capitalism develops, the working class grows in numbers, improves its organisation and intensifies its struggle for higher wages and better working conditions.

In this struggle, the workers combine in trade unions. Economic struggle, however, cannot solve the basic problems of the working class's position. In its economic struggle, Marx pointed out, the working class only comes up against the consequences and not the causes of these consequences.

In spite of the limited possibilities of the economic struggle, Marxism-Leninism does not deny its importance for the working class. The economic struggle is, above all, a school of class struggle for the broad masses of workers.

Marxism-Leninism teaches that the political struggle of the working class, directed at overthrow of the capitalist system, is the main thing. A correct combination of economic and political struggle is the most important condition for achieving its goals. Under contemporary conditions, the monopolistic bourgeoisie widely uses the bourgeois state to suppress the revolutionary movement of the proletariat. The instability of the capitalist economy, the sharpening of the monetary, energy, raw material, and other crises and the growth of the army of unemployed strengthen the attempts of the financial oligarchy to shift the burden of the economic difficulties onto the shoulders of the working people.

In a number of capitalist countries, anti-working-class laws have been introduced, forbidding strikes and demonstrations, limiting the rights of trade unions and placing their activities under state control. Under those conditions, the problem of the working class's struggle for political rights becomes particularly pressing.

The strength and organisation of the working class of capitalist countries are growing from year to year and its political consciousness is increasing. Its struggle in defence of

its economic and political interests is becoming ever broader, as the data on the steady growth of the strike movement in the post-war period indicate. Whereas from 1919 to 1939, around four million people took part in strikes throughout the capitalist world, between 1946 and 1960, the number of strikers was 150 million, and from 1961 to 1971, 315 million. In the first half of the 1970s, the total number of those taking part in workers' mass actions in capitalist countries was 314 million, including more than 106 million involved in the strike movement. Strikes are taking on vast dimensions and are more and more often acquiring a national character.

In the Report to the 25th Congress of the CPSU, L. I. Brezhnev described the sharp deterioration in the condition of the workers in capitalist countries as a result of the developing of the worst world economic crisis of the post-war period, as follows. "The working class retaliates," he said, "in the proletarian spirit by intensifying the struggle against big capital, the main culprit of social calamities. The strike wave, which involves diverse sections of working people, has risen to the highest level in the past several decades. The strength and prestige of the working class are greater, and its role of vanguard in the struggle for the interests of working people, the true interests of the nation, has increased."[1]

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 34.

Chapter 5

THE GENERAL LAW OF CAPITALIST ACCUMULATION

After his comprehensive and thorough analysis of the production of surplus value, as a result of which the basic economic law of capitalism was discovered, Karl Marx investigated the transformation of surplus value into capital, i.e. the accumulation of capital. The most remarkable conclusion emerging from his investigation was, in Engels's opinion, substantiation of the growing strength of the proletariat and the historical necessity of socialist revolution.

1. SIMPLE AND EXTENDED REPRODUCTION

Production and Reproduction

In starting his investigation of the process of accumulation of capital, Marx looked first at the bases of reproduction common to all stages of social development.

In order to live, people must continually produce material goods. A society can no more cease to produce for even the briefest period, than it can cease to consume. The production of material wealth, looked at not as a single, separate act, but as a continuous, constantly repeated process, is called *reproduction.* Like production, it always has a social character.

In every socio-economic formation, there is always reproduction of labour power and of the corresponding relations of production, as well as reproduction of material goods.

Marx distinguished two types of reproduction–simple and extended. Sometimes, when conditions are deteriorating, Marx

wrote, "imperfect–defective–reproduction" might take place.[1] In pre-capitalist socio-economic formations, *simple and, in certain periods, incomplete reproduction* prevailed for long periods, since the surplus product, by which production is able to expand, had either not yet been produced or was almost completely spent on the parasitic needs of the slave-owners and feudals.

Extended reproduction, in which the process of production renews itself on an ever increasing scale, is characteristic of capitalism. Nevertheless, Marx began his analysis of the process of capital accumulation with simple reproduction, as the latter is the basis, the main component, of extended reproduction and consideration of it facilitates deeper understanding of the exploitative essence of the bourgeois system.

Simple Capitalist Reproduction

With simple capitalist reproduction, the whole of the surplus value is used for the personal consumption of the capitalists and other exploiters, while the process of production is renewed on the old scale. Marx's analysis of simple capitalist reproduction enabled him to draw a number of very important conclusions.

(1) For the process of simple reproduction to take place continuously, the capitalist must regularly make new purchases of labour power. In looking at a single act of the sale of labour power, the illusion is created that the capitalist advances the money to pay for it from his own pocket. But when reproduction is analysed, it becomes clear that it is not the capitalist who makes an interim payment to the workers, but the workers who advance their labour to the capitalist, since the source from which the capitalist pays for labour power each time is the value of the commodity created by the workers themselves in the previous period.

(2) Over a certain period of time, simple reproduction inevitably transforms any capital originally advanced, what-

[1] Karl Marx, *Capital*, Vol. II, Moscow, 1974, p. 399.

ever its origin, into accumulated capital or into capitalised surplus value.

Let us assume that the capitalist originally advanced 100,000 dollars to organise a business. Each year, this business brings him in 20,000 dollars in surplus value, which he spends exclusively on personal consumption. Over five years, he spends 100,000 dollars (20,000 × 5), which is equal to the original capital advanced. Nevertheless, the same amount of capital is still in his hands and functioning and, in essence, it is nothing other than surplus value appropriated gratuitously by the capitalist, i.e. accumulated capital.

When the working class, during the socialist revolution, expropriates the capitalists, it is only taking back what was created by its own surplus labour and appropriated, without compensation, by the capitalists.

(3) There are two types of consumption. When the worker consumes means of production in the labour process and simultaneously expends his own labour power, we have *productive consumption.* But, when he and his family consume the means of subsistence obtained with his wages, that is *personal consumption.* Under capitalism, the impression is created that the worker is subordinate to the capitalist only during productive consumption, while during personal consumption he is free and independent. Analysis of the process of reproduction, however, shows that the worker's personal consumption is no more than an instant in the reproduction of capital and that it is, above all, necessary to the worker in order to restore the strength he has expended and to be able to continue his compulsory labour in the capitalist factory. The worker is therefore subordinated to capital even before he sells his labour power to a capitalist.

(4) From analysis of simple reproduction, it becomes obvious that the worker is always left without means of production, although he works continuously. The capitalist, on the contrary, always remains the owner of the means of production, although he does not work. So *capitalist reproduction is reproduction of material wealth, labour power, and of capitalist relations of production.*

Extended Capitalist Reproduction. Accumulation of Capital

Extended capitalist reproduction presupposes the systematic addition of a part of surplus value to the functioning capital through the purchase of additional means of production and labour power. Surplus value is divided into two parts. "One portion is consumed by the capitalist as revenue, the other is employed as capital, is accumulated."[1] *The conversion of surplus value into capital is the accumulation of capital.*

In his theory of surplus value, Marx disclosed how capital gave rise to surplus value and in his theory of the accumulation of capital, he showed how capital itself arose from surplus value.

Three things are necessary for extended capitalist reproduction (at a given productivity of labour): (1) additional means of production; (2) additional means of subsistence for the workers newly drawn into production; (3) additional labour power. In his study of extended reproduction, Marx started from the assumption that they were all available.

Analysis of extended capitalist reproduction shows that all the new capital arising from capitalised surplus value is, right from the start, the result of appropriation of the unpaid labour of others. The equivalent exchange relations between capitalists and workers during the sale of labour power are only its outward and visible form. "What really takes place is this," Marx said, "the capitalist again and again appropriates, without equivalent, a portion of the previously materialised labour of others, and exchanges it for a greater quantity of living labour."[2] This capitalist mode of appropriation is not engendered by a breach of the laws of commodity production and exchange, but, on the contrary, through their application. Having bought labour power and paid its value, the capitalist has the right to dispose of its use value as he sees fit.

Thus, *capitalist extended reproduction, or the accumulation of capital, is the reproduction of capital and of capitalist production relations on an increasing scale.*

[1] Karl Marx, *Capital*, Vol. I, p. 554.
[2] Ibid., p. 547.

Factors Affecting the Scale of Capital Accumulation

Surplus value, as we said above, breaks down into a fund for accumulation (capital) and a fund for personal consumption (revenue). While the proportion of each of these two funds is known, the size of the fund for accumulation depends on the circumstances that determine the total mass of surplus value.

(1) The scale of accumulation depends on the degree of exploitation, which increases as capitalism develops. As exploitation increases, the mass of surplus value grows, which means that the part of it going into the fund for accumulation also grows. Employing the method of production of absolute surplus value, the capitalists lengthen the working day, raise the intensity of labour and extract more surplus value. As a result, the fund for accumulation grows without a corresponding increase in such components of constant capital as buildings, machinery and equipment. The fall in real wages in comparison with the value of labour power, which is particularly increasing under contemporary conditions, enables the capitalists to convert part of the fund for the workers' personal consumption into the fund for capital accumulation.

(2) Capitalist accumulation depends on the productive power of social labour. Since growth of the productivity of labour in industries producing means of subsistence for the workers leads to a fall in the value of labour power, a variable capital of the same amount can set a greater mass of living labour in motion. Consequently, capitalists intensify exploitation through relative surplus value, broaden its scope and increase accumulation. The personal consumption of the capitalist can also grow without an increase in his money revenue, since the value of consumer goods and luxuries falls as a consequence of the rise in the productivity of labour.

With an increase in the productivity of labour in industries producing means of production, the value of machines, raw materials and semi-finished goods falls. Because of that, capitalists can acquire more means of production for a constant capital of the same amount, and with the progress of science and engineering, these not only become cheaper, but

also become more efficient, which makes for an increase in the scale of capital accumulation. The latest advances of chemistry and physics have made possible rapid increase of the number of products useful for production and consumption, and extension of the use of already known substances. With today's scientific and technical revolution, Marx's remarks on science and technology's providing functioning capital with the ability to expand, irrespective of its size, sound as if they had been written now.

(3) The scale of accumulation depends on the difference between the capital employed and the capital consumed. The value of the instruments of labour (production buildings, machinery, equipment and so on) is not transferred to the new product all at once, but in bits, as they wear out. But the instruments of labour take part in the process of production as a whole throughout their functioning life.

Let us assume that a capitalist employs 100 looms in his mill and that their depreciation period is ten years. In five years, the capital employed by him in the form of these machines has already been half consumed and transferred to the value of the products made and returned to him, when they have been sold, in the form of depreciation allowances. But all 100 machines will still be functioning as before in the process of production. With the depreciation allowances accumulated, the capitalist can buy another 50 looms and in fact increase the employed capital by 50 per cent, to 150 machines. In that way, the greater the part of constant capital that is embodied in instruments of labour and the greater the difference between the capital employed and the capital consumed, the greater is the possibility for accumulation.

In this connection, Marx made the very pertinent point that there are possibilities in developed capitalist countries, where much fixed capital is used, of increasing the fund for accumulation without making deductions from surplus value. This possibility, he emphasised, "does not exist at levels of production and in nations where there is not much fixed capital. This is an important point."[1]

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[1] Karl Marx, *Theories of Surplus-Value*, Part II, Moscow, 1968, p. 480.

This point of Marx's is fully confirmed by present-day capitalist reality. According to American statistics, the proportion of depreciation in the gross capital investment of the USA has now reached 87 per cent. The actual scale of depreciation, and its proportion in the capital investments of capitalist firms, is greatly exaggerated, of course, so as to conceal super-profits from the tax authorities. Nevertheless, the role of this factor in the accumulation of capital increasingly grows as capitalism develops.

(4) The scale of accumulation depends on the magnitude of all the functioning capital and its rate of turnover. With the same degree of exploitation, the mass of surplus value depends on the number of workers exploited at one time, and the number of workers, in turn, is connected with the amount of capital in operation, from which it follows that accumulation increases as functioning capital increases.

2. THE ORGANIC COMPOSITION OF CAPITAL AND ITS GROWTH AS CAPITALISM DEVELOPS

The Organic Composition of Capital

As capital is accumulated, its composition changes. The composition of capital can be viewed from two aspects. In physical terms, capital consists of a definite quantity of means of production (buildings, machines, raw materials, fuel and so on) and a certain quantity of labour power. The ratio between the mass of employed means of production and the amount of labour necessary to use them Marx called the *technical composition of capital.*

In terms of value, capital is divided into the value of the means of production (constant capital) and the value of labour power (variable capital). The ratio between the value of constant capital and variable capital Marx called the *value composition of capital.*

There is a strict correlation between the technical composition of capital and its value composition. A change in the technical composition of capital connected with a development in the production techniques leads as a rule to a change

in its value composition as well. The ratio between constant and variable capital ($c:v$), i.e. its value composition, in so far as it is determined by its technical composition and mirrors changes of the latter, Marx called the *organic composition of capital.*

Growth of the Organic Composition of Capital as Capitalism Develops

As capitalism develops, the organic composition of capital rises, i.e. the capital spent on the acquisition of means of production (c) grows more quickly, so that there is a relative diminution of the part used to purchase labour power (v). This results from the development of the productive forces and the operation of the basic economic law of capitalism.

The striving to obtain as much surplus value as possible, and competition, prompt all capitalists to re-equip enterprises technically, with the result that the organic composition of capital rises (though by different amounts) in all sectors of the capitalist economy.

In recent years, under the impact of the scientific and technical revolution complicated and contradictory changes have been taking place in the organic composition of capital. The technical composition of capital in industry, transport, and agriculture has risen in all developed capitalist countries, and the rate of growth has been particularly high in the newest branches of industry, and it has grown considerably faster in their agriculture than in industry. Indicators of this rise are an increase in the power per worker ratio, growth of the number of machine tools and aggregates, the amount of raw materials and semi-finished goods used per employed worker, and so on. At the same time, the growth in the value composition of capital has been held back in the main by two factors: (1) the consequences of the rising efficiency of the instruments of labour and of technological processes; (2) the results of the growth in the value of aggregate labour power caused by increasing expenditure on the general education and specialised training of

workers, the rise in the numbers and proportion of engineering and technical staff among the production personnel of enterprises, and expanding real needs of the working class in connection with the development of social production, and so on.

Even so, the organic composition of capital (considered over a long term) has continued to grow in all branches of the economy.

Whereas the organic composition of capital in US manufacturing industry, i.e. the ratio $c : v$, was 4.6 : 1 in 1889, in 1968 it was 7.3 : 1.

Concentration and Centralisation of Capital

As capitalism develops, there is a concentration and centralisation of capital. *Concentration of capital* is its increase through the capitalisation of surplus value. An increase in the size of individual capitals as a result of concentration leads to a growth of the total social capital.

Centralisation of capital is the concentration of already existing individual capitals in the hands of fewer and fewer capitalists. This takes place in two ways: (1) through the ruin of some capitalists in the course of competition and the swallowing up of their capital by other, stronger capitalists; and (2) through the uniting of individual capitals in joint-stock companies or corporations. In modern literature, these are usually called take-overs and mergers. The merger process became particularly strong in imperialist countries from the middle of the 1950s. In US industry, for example, there were 2,929 mergers between 1945 and 1954, 7,731 between 1955 and 1964, and 8,152 in the quinquennium 1965-69. This means that the rate of centralisation was accelerated by more than 400 per cent in comparison with the first post-war decade. A new feature of the centralisation of capital in modern conditions has become the merging of giant monopolies. Two of the largest steel firms in West Germany, Thyssen and Rheinstahl, merged in 1974. This was the biggest merger ever to take place in that country. In France, in the same year, two of the leading automobile firms, Citroen and Peugeot, merged. The new amalgamated firm produces around 1,500,000 vehicles a year, or 42 per cent of the total

output of the French automobile industry; in the opinion of experts, it is able to compete successfully on world markets against the giant American firms.

While increasing the size of individual capitals, centralisation, unlike concentration, does not mean a simultaneous increase in social capital. It only alters its distribution among capitalists. But, in speeding up the creation of bigger and bigger undertakings, centralisation actively furthers concentration and, consequently, the growth of total social capital.

Big businesses have a number of economic advantages over small ones and so the process of concentration, i.e. of the accumulation of capital, proceeds more intensively in them. But the stronger the big capitalists become, the more rapidly they squeeze out and ruin their small competitors, forcing the pace of centralisation. Thus, concentration and centralisation of capital are mutually interconnected and mutually complementary processes, concentration being the more important of the two.

The concentration and centralisation of capital are accompanied, as a rule, with a concentration of production. As capitalism develops, production becomes more and more concentrated in a comparatively small number of big and very big firms. As Lenin wrote in *Imperialism, the Highest Stage of Capitalism*, "the enormous growth of industry and the remarkably rapid concentration of production in ever-larger enterprises are one of the most characteristic features of capitalism."[1]

Powerful accelerators of the centralising of capital and production are wars and economic crises. Under the shocks of crises, thousands of small and medium businesses go bankrupt and are ruined while bigger firms take them over and become even bigger. Today the scientific and technical revolution is exerting an enormous influence on the pace of concentration and centralisation. Projects in the newest industries (the atomic power industry, electronics, rocket engineering, and others) can only be set up with enormous centralised capital.

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[1] V. I. Lenin, *Collected Works*, Vol. 22, p. 196.

The Advantages of Large-Scale Production

Large capitalist businesses ruin and swallow up small ones because they have decisive advantages over them in all spheres of activity. Their superiority manifests itself above all in production. Big businesses have wider opportunities at their disposal for setting up research laboratories and design offices, for attracting qualified staffs of scientists, engineers and skilled workers, and for introducing new techniques and new methods of organising production. They enjoy all the benefits of mass co-operation of labour and have relatively lower general overheads and administrative and management costs (per unit of output). As a result, they achieve higher productivity of labour and a lower individual value of commodities, which is the basic condition for success in competition.

Large-scale capitalist production also has great advantages in commercial operations. The purchase of equipment, raw materials, etc. wholesale, in bulk, comes considerably cheaper. Conditions for the sale of commodities are also more favourable for big businesses.

Large entrepreneurs can employ bank credit on a bigger scale and at favourable rates, which enables them to make better use of boom conditions for a rapid expansion of production. The economic superiority of large-scale production leads to its constantly squeezing out small-scale production in all capitalist countries.

3. THE CAPITALIST PROCESS OF ACCUMULATION AND THE FORMATION OF AN INDUSTRIAL RESERVE ARMY

Accumulation of Capital and Relative Surplus Population. The Capitalist Law of Population

In pursuit of surplus value, as stated above, capitalists expand production and improve technology which causes an increase in the organic composition of capital. Let us assume that, at the inauguration of a business, its capital consisted

half of constant capital and half of variable capital, i.e. that the ratio $c : v$ was 1:1. After several years, production expanded through capitalisation of surplus value and the additional capital was already of a higher organic composition, since technology has forged ahead in the intervening years, the ratio $c : v$ having become, let us assume, 2:1. The same thing happened when the old fixed capital was renewed from depreciation allowances. Now not half the capital, but only a third is spent on labour power and two-thirds on means of production.

An extremely important conclusion follows from this. As the organic composition of capital rises, the amount of labour power consumed by social capital grows more slowly than capital itself, i.e. the growth of demand for labour power slows down. At the same time, the accumulation of capital accelerates growth of the supply of labour power, since it causes the ruin of masses of small commodity producers, transforming them from sellers of the commodities they produced into sellers of their own labour power. The supply of labour power exceeds the demand for it and causes a surplus working population in comparison with the needs of capital.

Being the inevitable result of the accumulation of capital, the surplus working population forms an *industrial reserve army of labour* which, as Lenin put it, "is an indispensable attribute to the capitalist economy, *which could neither exist nor develop without it*".[1] The continuous renewal of this relative surplus population is a *specific law of population* inherent only in the capitalist mode of production.

Marx foresaw that the elimination of capital as a social relation would produce a radical change in the social consequences of the growth and improvement of the means of production. "The workmen, if they were dominant," he wrote, "if they were allowed to produce for themselves, would very soon, and without great exertion, bring the capital (to use a phrase of the vulgar economists) up to the standard of their needs."[2]

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[1] V. I. Lenin, "A Characterisation of Economic Romanticism", *Collected Works*, Vol. 2, p. 181.

[2] Karl Marx, *Theories of Surplus-Value*, Part II, p. 580.

The elimination of relative surplus population (unemployment) in socialist countries is full confirmation of Marx's scientific foresight.

The growth of relative surplus population under capitalism was reinforced through use of cheap female and child labour. The members of the worker's family became competitors on the labour market and helped to reduce the wages of the head of the family in two ways: first, the value of labour power fell, since the family was supported by several of its members, exploited in capitalist enterprises; second, the wider use of female and child labour increased the number of men unemployed.

Lengthening of the working day and intensification of labour also affects the rate of growth of surplus working population. Excessive work by the employed section of the working class dooms the other section–the unemployed–to enforced idleness.

The industrial reserve army is constantly being replenished from the ranks of small producers (peasants and artisans) ruined by big capital. Under contemporary conditions, this process is also developing rapidly in those capitalist countries that are not highly developed industrially. For this reason, in countries like Spain, Greece, Turkey and others, a huge "surplus" of labour power has been formed, which is the source of cheap labour for West Germany, Great Britain, France and other imperialist states.

The Three Main Forms of Relative Surplus Population

There are three main forms of relative surplus population: floating, latent and stagnant. The *floating* form is the commonest in industrial centres. Workers temporarily losing their jobs either get sucked back into the process of production or swell the army of the unemployed. It is a rare worker who has never been unemployed during his working life or, at least, partially unemployed. Older people become unemployed with increasing frequency. Capitalists, enjoying the opportunity of hiring new, younger and stronger workers from the reserve army, dismiss older people first.

The floating form of surplus population results, under capitalism, from the technical revolutions that take place now in one branch of production and now in another. With the introduction of new machines, the worker often loses not only his job but also his trade. His skill and experience, accumulated over long years of work, prove to be unwanted. This is happening with particular force under the conditions of today's scientific and technical revolution. The automation of production squeezes out workers–machine-tool operators, operatives and general workers–and gives rise to a need for workers with new, higher qualifications. Alongside the growth of unemployment, a lack of highly qualified labour power, therefore, is making itself felt in a number of countries.

Latent surplus population is the form most characteristic of rural areas, and is often called agrarian overpopulation. Since capitalism is penetrating more and more into agriculture, the bulk of peasant farms, unable to stand up to the competition of big capitalist farms, are ruined. In the village, too, there is a huge number of unemployed and semi-unemployed poor, concealed by the illusion of possessing an insignificant patch of land that does not ensure even a meagre existence. Furthermore, capital accumulation in agriculture, even more than in industry, is accompanied by a "release" of workers and by an absolute decrease in the number of persons engaged in agricultural labour. Agrarian overpopulation is especially great in the developing countries. In Indonesia, for example, specialists estimate, it stands at ten to fifteen million people at the present time.

The existence of a permanent source for replenishing the ranks of the urban proletariat permits the capitalist class at any time to find sufficient workers ready to do the heaviest and most dangerous work for the lowest wages. Latent surplus population also exists in capitalist towns in the persons of impoverished artisans, petty street traders and so on. This form of surplus population encourages increased exploitation of the proletariat and hampers development of the class struggle.

Stagnant surplus population is formed from working people in towns and villages who have been without work for a long time and make ends meet from casual earnings, mainly outwork at home (domestic industry) under conditions of ex-

treme poverty. A clear description of this category of the poor was given by Engels in his famous *The Condition of the Working Class in England.* Many were already unable to work because of injury and illness. Marx named an even lower stratum of unemployed who live in the sphere of pauperism, and is the hospital of the industrial reserve army.

Before the Second World War, unemployment in capitalist countries was at its highest level in the whole history of capitalism (excluding the 1929-33 crisis, when it was even higher). In the USA in 1939, there were 9.4 million unemployed and in Britain in 1938 there were 1.9 million. Since World War II, chronic unemployment, as before, has been a most acute problem for many capitalist countries, despite the protestations of bourgeois economists and politicians that it has been eliminated.

According to International Labour Organisation data, at the end of 1975 there were about 18.5 million unemployed in the developed capitalist countries, including 8.5 million in the USA, 5.4 million in Europe and 1.3 million in Japan. A characteristic feature of the structure of the reserve army in recent times has been a decrease in the numbers employed in the service sphere and mass dismissals of "white-collar" workers, including engineers and scientific workers, by many firms.

Under contemporary capitalism, unemployment is distinguished not only by the number involved, but also by its length. Being unemployed for long periods, workers lose their skills and qualifications, migrate in search of work, or emigrate to other countries.

Critique of Malthus's Reactionary Theory of Population and Modern Malthusians

Right at the beginning of the development of capitalism, the bourgeoisie's tame economists were trying to lay the blame for the unemployment and poverty of the labouring masses on Nature and on the scarcity of her resources and, at the same time, to justify the capitalist system. When the development of large-scale machine industry in Great Britain gave rise to a rapid growth of "surplus" population, the English vulgar economist T. R. Malthus published *An Essay on the Principle*

of Population (1789). In it he "proved" that the poverty of the broad masses of labourers under capitalism was caused by people reproducing more quickly than production of the means of subsistence increased. According to his estimates, population grew in geometric progression: doubling in the first 25 years, and again in the next 25 years (a fourfold increase), then again doubling (eightfold) and so on, while the means of subsistence increased only at a rate of 1, 2, 3, 4 and so on, i.e. in arithmetic progression. Malthus illustrated his "law" with falsified data on population growth in the USA, deliberately ignoring the fact that the population of North America was increasing rapidly at that time mainly through the influx of large numbers of immigrants. Nevertheless, his book was noisily acclaimed by bourgeois readers and the aim of its publication was achieved. This aim, as the Russian revolutionary democrat N. G. Chernyshevsky wrote, was to "show that human calamities are mainly the result, not of inadequacies of the economic system, but of the laws of nature itself and that no reforms will bring about a lasting improvement of the human condition".[1]

Malthus claimed that calamities like cholera, plague, famine and wars were blessings for humanity, since they reduced the population, bringing it into correspondence with the available means of subsistence.

"The productive power at mankind's disposal is unmeasurable," Frederick Engels wrote, criticising this reactionary "theory". "The productivity of the soil can be increased *ad infinitum* by the application of capital, labour and science."[2] Even the reality of capitalism itself shows the bankruptcy of Malthus's "theory". In the USA, in the 30 years from 1938 to 1967 the population increased 53 per cent, while agricultural production rose by 75 per cent and output of manufacturing industry 400 per cent.

Malthus's absurd views, which had nothing in common with science, were put by fascist ideology to the service of German imperialism with its delirious ideas of the enslavement and extermination of whole nations. A vast number of books and

[1] N. G. Chernyshevsky, *Selected Works*, Vol. II, Part 2, Moscow, 1935, p. 483 (in Russian).

[2] Karl Marx and Frederick Engels, *Collected Works*, Vol. 3, Moscow, 1975, p. 436.

articles has been published in capitalist countries since the Second World War, also devoted to "justifying" the need for a new war and for mass destruction of people by atomic and bacteriological weapons.

The books of the American neo-Malthusians Pearson and Pendell enjoy great popularity among the ideologists of imperialism. W. Vogt in his *Road to Survival,* published in 1948, "proved" that, since modern agriculture can apparently feed only half the population of the world, the majority of the people are doomed to starvation and death. He ignored the fact that huge amounts of food were periodically destroyed in capitalist countries for lack of effective demand. To eliminate "surplus" population, Vogt suggested deliberately organising starvation in India and China, and cutting of the population of Europe to a third and of Japan to an eighth. In another work, in 1960, Vogt said that rapid growth of population was more dangerous and represented a more direct threat than the hydrogen bomb. Pearson proposed cutting world population to 900 million. Pendell cynically called for the introduction of a law forbidding marriage for those who could not furnish evidence of adequate income to support a family.

It is a premise of Marxist political economy that the welfare of the people depends not only on natural wealth, but mainly on the state of production and the character of the social system. Working people are not just consumers of material wealth, but are also the main productive force of society. At the present-day level of productivity of social labour, a man is able to produce many more means of subsistence than are needed to provide a normal life for his family. The outlook for further development of material production, given full use of the latest achievements of science and technology, is truly immense. The actual reasons for the increase of poverty and unemployment in capitalist countries are to be found not in overpopulation or in the "laws of nature", but in capitalist relations, which hold back the development of material production more and more strongly.

The problem of the population growth in individual countries under contemporary conditions requires thorough investigation. The statistics indicate that since the 1950s population growth has noticeably speeded up in comparison

with previous periods, particularly in a number of developing countries in Asia and Latin America. Scientific analysis of these demographic problems, however, has nothing in common with the nonsense talked by contemporary Malthusians, who call for the extermination of hundreds of millions of people in order to save the doomed capitalist system.

The views of contemporary Malthusians are refuted with increasing frequency even by bourgeois economists and sociologists. The most shattering blow to their "theories", however, is the experience of the Soviet Union and other socialist countries, where the social causes of unemployment and poverty have already been eliminated once and for all.

4. THE GENERAL LAW OF CAPITALIST ACCUMULATION. RELATIVE AND ABSOLUTE DETERIORATION OF THE POSITION OF THE WORKING PEOPLE

The Essence of the General Law of Capitalist Accumulation

The essence of the general law of capitalist accumulation is that growth of wealth at one pole of bourgeois society—that of the capitalists—inevitably leads to increase in the numbers of the proletariat and in the torment of forced labour, unemployment and poverty at the other—that of the working people. "The greater the social wealth," Marx wrote, "the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army.... But the greater this reserve army in proportion to the active labour-army, the greater is the mass of a consolidated surplus-population, whose misery is in inverse ratio to its torment of labour. The more extensive, finally, the lazarus-layers of the working-class, and the industrial reserve army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation.* Like all other laws it is modified in its working by many circumstances...."[1]

The deterioration of the condition of the working class

[1] Karl Marx, *Capital*, Vol. I, p. 603.

under capitalism takes the form either of a relative or of an absolute impoverishment.

Relative Impoverishment

Relative impoverishment is seen in a worsening of the condition of the working class in comparison with that of the bourgeoisie. In any capitalist country this process can be observed by confronting the dynamics of wages and of capitalists' profits.

The value of the output of capitalist enterprises consists of the value of the constant capital (c) consumed in its production, plus the value of the labour power (v) and surplus value (s). The sum of the value of labour power and surplus value ($v+s$) represents the newly-created value or, on the scale of the society, the national income. Since the rate of surplus value increases as capitalism develops, this means that s grows more rapidly than v, and that the capitalists receive an ever increasing share of the national income, and the workers an ever smaller share. The working class's share in the national income of Great Britain, for example, fell from 42.7 per cent in 1891 to 26 per cent in 1963. In the USA, the working class's share of the national income in 1909 was 39.3 per cent, and in 1965 only 24.4 per cent. The net profits of US corporations increased by 91 per cent between 1960 and 1968, and the wages of industrial workers by 11 per cent.

The relative impoverishment of the working class is also seen in a fall in the workers' share of the national wealth of capitalist countries. According to bourgeois statistics, the rich in the USA, who constitute 3 per cent of the total population, appropriate 57 per cent of the national wealth. In Great Britain, 61 per cent of the national wealth belongs to 3 per cent of the population.

There is also relative deterioration of the condition of the working class during periods (a) when real wages rise, unemployment falls, and the workers' condition does not deteriorate in absolute terms, or even (b) when there is temporary improvement in workers' living standards, as sometimes happens in times of high economic activity when capitalists' profits grow much more quickly than workers' wages.

Absolute Impoverishment

By *absolute impoverishment,* Marxist-Leninist political economy understands deterioration of the whole aggregate of the workers' working and living conditions and social position in capitalist society.

Absolute impoverishment of the working class is caused by the very nature of capitalism and by the operation of its basic economic law, which determines the main aim of capitalist production, i.e. the largest possible increase in surplus value through rapacious exploitation of wage labour. Absolute impoverishment, however, does not occur as a constant and continuous deterioration in the workers' position from month to month or year to year in every enterprise, or in every industry. Absolute impoverishment, like all other processes taking place under capitalism, develops very unevenly. In some periods, it increases, in others, it slows down. In some countries, it goes to extremes, in others, conditions develop in which the working class manages to slow down the impoverishment process temporarily and even to gain a certain increase in the standard of living. The forms of absolute impoverishment alter fundamentally in accordance with concrete historical conditions and the specific features of the development of capitalism in any particular country.

Marx considered the *formation of the industrial reserve army and the growth of unemployment* as the initial, determining factor in impoverishment of the proletariat. Loss of his job plunges the worker into terrible poverty. The higher the percentage of wholly and partially unemployed in a country, the worse all the workers live, including the employed, many of whom have to support unemployed members of the family on their wages. The capitalists use unemployment to intensify labour and lower the overall level of wages. The growth of unemployment increases the workers' uncertainty about the morrow and the insecurity of their existence.

An important index of absolute worsening of the working class's condition is *increase of the gap between the value of labour power and real wages.* Bourgeois economists loudly advertise the certain increase of real wages that took place after the Second World War in several capitalist countries, as if it refuted the Marxist theory of impoverishment. But

they keep silent about the circumstances, which are very important for a correct evaluation of the process, ignoring, in particular, the very significant point that the movement of real wages must not be considered in isolation from the value of labour power which also alters as capitalism develops.

Growth of the productivity of social labour in industries producing consumer goods for workers causes a *fall in the value of labour power;* but other factors also affect it.

(1) Scientific and technical progress and new technology as applied under capitalism constantly give rise to a speeding up of the pace of labour and to an increase in its intensity, and make ever increasing demands on the worker and on his general educational and technical training, skill, etc. The current scientific and technical revolution is leading to a significant rise in the proportion of skilled and highly skilled labour in the sum total of wage labour. These are factors causing a rise in the value of labour power.

(2) The material living conditions of society change, increasing the needs of all people, including the real needs of the working class. At the end of the nineteenth century, Lenin had written: "We must not lose sight of the indubitable fact that the development of capitalism inevitably entails a rising level of requirements for the entire population, including the industrial proletariat."[1] Under contemporary conditions, the range and volume of needs resulting from altered living conditions, the growth of production and the development of new products and services, are constantly growing. Thus, without watermains, electricity, refrigerators, radio, and without increasing expenditure on transport, the working-class family can hardly exist in a large modern city. All this, too, raises the value of labour power. The growth of real wages, however, is constantly restrained by rising prices and taxes, by anti-working-class legislation, and by the traitorous policies of corrupt trade union leaders, and falls further and further behind the increase in the value of labour power.

Comparison of real wages with the subsistence minimum (which bourgeois statisticians calculate much below the actual value of labour power) gives some idea of the workers' condition. In US manufacturing industry, for example, the aver-

[1] V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, p. 106.

age yearly wage in 1944 covered 80.9 per cent of the subsistence minimum, but in 1965 only 71 per cent. In France, in 1965, 66 per cent of workers received less than the subsistence minimum. In Japan, where the standard of living of workers is even lower than in Western Europe and the USA, the average monthly wage of workers in 1968 (45,200 yen) was less than half the subsistence minimum of a worker's family. US official government documents state that 32 million Americans continue to live in poverty, while 26 million of them are on the borderline and do not receive the necessary help from the government.

Absolute deterioration of the condition of the working class is also manifested in *excessive intensification of the labour* of wage workers. Statistics do not provide direct data on increases in labour intensity. It can only be judged from indirect indices, in particular, from the increase in hourly output, which is not only the result of technical progress but also, to a significant degree, of an increase in the intensity of labour. Between 1960 and 1970, output per man-hour in US manufacturing industry, for example, increased by 36 per cent, in Italy by almost 100 per cent, and in Japan by 160 per cent. Such an increase in hourly output over a relatively short period cannot be explained by improved production techniques and technology alone. The rise in the intensity of labour necessitates a significant increase in the needs of workers in order to reproduce their labour power. Even with an increase in real wages, therefore, the gap between wages and the value of labour power may increase. Moreover, the excessively high tempos of work and the nervous tension now common in capitalist production lead to irreplaceable expenditure of the worker's strength, to premature loss of capacity to work, to a rise of injuries, occupational diseases and, in particular, diseases of the cardiovascular and nervous systems.

Medical statistics indicate that complaints of the cardiovascular and nervous systems have become a genuine threat to the working people in many capitalist countries, the more so since the majority are deprived of qualified medical assistance by its high cost. One of the worst consequences of the intensification of labour—the rate of industrial injuries and occupational diseases—is on the increase. In the USA, in 1960, 1,950,000 persons suffered industrial injuries, includ-

ing 13,800 fatalities. In 1971, the number had increased to 2.5 million, including 14,600 fatalities. In Italy, the numbers suffering industrial injuries rose in the same period from 1,497,000 to 1,546,000 and in France, the number of registered occupational diseases increased from 25,800 to 51,800.

During economic crises and imperialist wars, the condition of the workers deteriorates to the limit. As the Programme of the CPSU says: "Crises and periods of industrial stagnation, in turn, are still more ruinous to small producers, increase the dependence of wage labour on capital and lead more rapidly to a relative, and sometimes an absolute, deterioration of the condition of the working class."[1] The 1929-33 crisis, for example, caused a gigantic rise in the number of unemployed, to 30 or 40 million, and a sharp fall in wages in all capitalist countries. During the First and Second World wars, the absolute deterioration of the condition of hundreds of millions of working people was reflected in hunger on an unprecedented scale, physical exhaustion, epidemics and, in World War II, in forced slave labour in fascist concentration camps and the direct destruction and extermination of millions of people. The 1974-75 economic crisis produced the largest rise in unemployment experienced by capitalism since the last war. At the same time, the cost of living increased at an unprecedented rate. From July 1974 to December 1975 alone, the price of foodstuffs and consumer goods of everyday use rose on average by 18.7 per cent in the developed capitalist countries. Real wages fell, according to official data, by 1-5 per cent in the USA, Great Britain, Japan and some other countries.

Among the factors adding to absolute impoverishment of the proletariat are the growth of taxes and rents, the deterioration of nutrition, racial and national discrimination in working conditions and pay, and the unattainability of good medical care and higher education because of their cost for the bulk of the working people. Confirmation of this is the fact that in the richest country in the capitalist world–the USA–1.8 million children of school age did not go to school in 1972 because their parents lacked the means, and 300,000 places in higher education institutions were not filled because high tuition fees prevented young people from enrolling.

[1] *The Road to Communism*, Moscow, 1961, pp. 452-53.

Even in state colleges and universities, tuition fees are 4,800 dollars a year, and in private institutions they are much higher. In the USA, over the last 40 years, average per capita taxes have risen from 23 dollars to 962 dollars a year, i.e. nearly 42 times. The population of Israel pays 41 per cent of the value of the gross national product in the form of taxes and compulsory loans because of militarisation of the economy.

The realities of capitalism thus confirm Marx's thesis that, as capital is accumulated, the condition of the working class deteriorates, however high or low wages may be.

In capitalist countries, the process of impoverishment is manifested in a conflict between two trends: a basic tendency toward absolute worsening of the proletariat's condition; and an opposite tendency to slow this process down and sometimes even toward temporary improvement in the workers' condition in certain sectors of the economy and in individual countries. In the article "The Strike Movement and Wages", Lenin wrote of the results of the working class's struggle in Russia in 1905: "The year 1905 improved the worker's living standard to a degree that normally is attained during several decades."[1]

The more capitalism develops, the more numerous and organised the working class becomes, and the more active is its struggle against capitalist exploitation. After World War II, the working class in capitalist countries obtained favourable conditions in its struggle for a higher standard of living owing to the formation and development of the world socialist system. As the Programme of the CPSU says: "Fear of revolution, the successes of the socialist countries, and the pressure of working-class movement compel the bourgeoisie to make partial concessions with respect to wages, labour conditions, and social security."[2] But it is not possible to eliminate the trend toward impoverishment and the operation of the general law of capitalist accumulation as long as capitalism exists. "In spite of some successes in the economic struggle, the condition of the working class in the capitalist world is, on the whole, deteriorating."[3]

[1] V. I. Lenin, *Collected Works*, Vol. 18, p. 259.
[2] *The Road to Communism*, pp. 474-75.
[3] Ibid.

Contrary to all the talk of bourgeois propaganda about the favourable influence of the imperialist powers on the developing countries, mass unemployment, poverty and death from starvation and intolerable living conditions is the lot of millions of working people today in many countries in Asia, Africa and Latin America, whose economies are still dominated by foreign monopoly capital. According to UN statistics, there are about 1,500 million people in the capitalist world who are either starving or regularly undernourished.

The absolute impoverishment of peasants and handicraft workers under capitalism is also seen in decline of their position in spite of excessive toil, in growth of latent unemployment and in their complete ruin. We arraign capitalism, Lenin wrote, "for the poverty of the *masses* (and not only for the poverty of the working class)".[1] The absolute impoverishment of the working people is consequently most clearly seen from analysing the whole system of relations of capitalist exploitation on a world scale.

Bourgeois economists and reformist theoreticians fiercely attack Marx's and Lenin's theory of the impoverishment of the proletariat in capitalist society. But the periodic nature of their attacks is itself most indicative. As soon as the working class succeeds in achieving certain concessions in the struggle with capital, the troubadours of bourgeois propaganda screech in one key about the "final collapse" of the Marxist-Leninist theory of capital accumulation and impoverishment of the proletariat. But as soon as crises set in and unemployment rises, and in wartime, when terrible disasters befall the proletariat, the apologists of capitalism urge workers to be patient, to renounce their demands and to "unite" with the capitalists. Bourgeois economists and reformists ascribe to the founders of scientific communism an interpretation of impoverishment foreign to them as a constant deterioration of the condition of the workers. The Marxist-Leninist interpretation of the process of impoverishment has nothing in common with such a vulgar notion. Even when substantiating his definition of the law of capitalist

[1] V. I. Lenin, "Opinion on Plekhanov's Second Draft", *Collected Works*, Vol. 6, p. 59.

accumulation, Marx emphasised that its operation was modified by numerous circumstances. Analysing the reasons for the relatively high level of wages in the USA, he pointed, in particular, to the absence there of relative surplus population in the first half of the nineteenth century and to the opportunities that existed for the American worker to become a farmer. But from the example of Great Britain and other countries, Marx and Engels showed the whole abomination of which capital was capable in its drive to accumulate, when relative surplus population grew and the working class was still not sufficiently organised to resist.

Since World War II, the working class of capitalist countries has won a number of concessions in tense class struggle, concessions reflected in an increase of real wages, shortening of the working day, extension of social insurance and pensions in a number of countries, and so on. But the present unrestrained rise of the prices of prime necessities and services reduces these achievements and tends to cancel out the workers' gains.

Consequently, while capitalism still exists, the working class can never be sure of the gains it has won and cannot be confident about its future. Communist and Workers' parties therefore raise the struggle for current economic and political interests of the working class to a new level, linking it more and more with the fundamental political tasks of the workers and all working people.

5. THE HISTORICAL TREND OF CAPITALIST ACCUMULATION

Capitalism grew up within the womb of feudalism. The accumulation of capital first took place under the old, pre-capitalist systems and their corresponding forms of exploitation. The main basis on which capitalism developed was the simple commodity economy existing as one of the economic forms within feudalism. The operation of the laws of value and competition gradually brought about a concentration of the property of many small commodity producers in the hands of a few owners, who became capitalists, the ruin of masses of peasants and artisans, compelling them to become sellers

of the only commodity remaining to them, their labour power. The development of capitalism was also encouraged by the process of primitive accumulation of capital, which is a tragic and bloody history of forced expropriation of the land and other means of production from millions of peasants and artisans.

As a result of these two processes, economic differentiation and the forced expropriation of small commodity producers, the private property of the small producers, based on personal labour, was replaced by a new form of private ownership, capitalist property, based on the exploitation of wage labour.

With the domination of capitalist property established, the basic source of capital accumulation became the surplus value created by the labour of wage workers. Alongside that, the operation of the law of capitalist accumulation now brought down individual capitalists, whose property was expropriated by bigger and stronger capitalists.

As capitalism developed, production became more and more social, which brought a growing need to establish social regulation and control over it. Ownership of the means of production and the products of labour became concentrated in the hands of fewer and fewer big capitalists, who subordinated the whole huge mechanism of social production to their mercenary interests. Sharpening of the basic contradiction of capitalism, that between the social character of production and the private capitalist form of appropriation, predetermines the inevitable downfall of the capitalist mode of production.

Along with capital accumulation, the degree and scale of capitalist exploitation grow and the proletariat increases, the social force that grows ever stronger within capitalism as its gravedigger.

As Marx said, "centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. Thus integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."[1] As a result of the socialist revolution, capitalist property is abol-

[1] Karl Marx, *Capital*, Vol. I, p. 715.

ished and is replaced by public ownership of the means of production, corresponding to the social nature of the productive forces today. The revolutionary working class is called on to solve the world historic task of replacing capitalism by socialism and is trained for this mission by the whole course of development of capitalist production. It solves it in close alliance with the masses of all other working and exploited people.

Chapter 6

THE CIRCUIT AND TURNOVER OF CAPITAL

1. THE CIRCUIT OF CAPITAL. FUNCTIONAL FORMS OF INDUSTRIAL CAPITAL

In the previous chapters we have looked at the most important problems of the first volume of *Capital*, in which Marx investigated capital as a historically determined social-production relationship between the bourgeoisie and the working class, revealed the mechanism of the "self-expansion" of value in the process of production and discovered the secret of the exploitation of wage labour by capital. At the same time, he already showed in Volume I that capital cannot grow without circulation and without continuous movement of the value advanced. Marx devoted the second volume of *Capital*, brought out by Engels in 1885, to analysis of the process of circulation and its effect on the production of surplus value.

"Capital as self-expanding value," he wrote, "embraces not only class relations, a society of a definite character resting on the existence of labour in the form of wage-labour. It is a movement, a circuit-describing process going through various stages, which itself comprises three different forms of the circuit-describing process. Therefore it can be understood only as motion, not as a thing at rest."[1]

In its movement, capital passes through three stages.

First stage. The capitalist appears on the commodity and labour market with his money capital, where he buys means of production (*Mp*) and labour power (*Lp*), i.e. the commodities he needs for productive consumption. As a result of this, his money capital (*M*) is converted into productive capital. The transformation of money capital into productive capital is given by the formula

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[1] Karl Marx, *Capital*, Vol. II, p. 108.

$$M-C\left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right.$$

Second stage. In the process of production, workers transfer the value of the means of production consumed to the manufactured commodity by their labour and create new value, which consists of the reproduced value of labour power plus surplus value. The commodity produced differs from the commodities bought by the capitalist in the first stage of the movement of capital, not only in physical terms, but also in value, for it embodies surplus value. As a result of the second stage of movement, productive capital becomes commodity capital

$$(C\left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right. \ldots P \ \ldots C').$$

Third stage. The capitalist returns to the commodity market and sells the commodities produced, turning them into money. In this act of circulation, capital value, already expanded by the amount of surplus value, casts off the commodity form and takes on its original, monetary form. In other words, commodity capital is converted into money capital (*C'–M'*).

Money capital is the first form of capital. Money becomes capital whenever it serves as an instrument for the exploitation of wage labour. The capitalist does not buy just any commodities, but only those that can function as productive capital, i.e. means of production and labour power. So the function of money capital is to create the conditions needed to bring labour power into combination with the means of production.

With the transformation of money capital into productive capital, circulation is interrupted and the process of production begins. The function of *productive capital* consists in the production of surplus value. This is also the aim of capitalist production. Consequently, capital becomes productive only in so far as surplus value is produced.

The expanded capital value embodied in the commodities produced has to be realised and converted into the monetary form. Realisation of the increased capital value is the function of *commodity capital.*

Thus, capital passes through three consecutive stages in its movement and takes on three forms, each of which–money,

productive and commodity–fulfils its own specific function in the circular movement of capital. This is why Marx calls them the functional forms of capital. The consecutive transformation of capital from one functional form to another and its return to the original form is called the *circuit of capital.*

"The capital," Marx said, "which assumes these forms in the course of its total circuit and then discards them and in each of them performs the function corresponding to the particular form, is *industrial capital,* industrial here in the sense that it comprises every branch of industry run on a capitalist basis."[1]

The complete circuit of industrial capital is described by the formula

$$M - C \left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right. \ldots P \ \ldots \ C^1 - M^1.$$

The dots in this formula indicate that the circulation process is interrupted by the process of production (*P*). The true nature of capital, its essence, is manifested directly in the functioning of productive capital. In that form of capital the antagonistic relations between the bourgeoisie and the proletariat, the relations of the exploitation of wage labour, are expressed directly. Only in the process of production is there a change in the magnitude of value, its self-expansion. The acts of *M–C* and *C'–M'* that take place in the sphere of circulation are a change in the form of value and are the necessary conditions for the functioning of productive capital.

The movement of industrial capital is not limited to a single circuit. The capitalist turns over his capital repeatedly in order to appropriate more and more surplus value. In this way the movement of industrial capital is characterised by a constant repetition of the circuit. One circuit follows the other:

$$M - C \left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right. \ldots P \ \ldots \ C^1 - M' - C' \left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right. \ \ldots \ P^1 \ \ldots \ C^2 - M^2$$

and so on.

Through continuous renewal and repetition of circuits, industrial capital not only in consequence takes on the three forms indicated–money, productive and commodity–but also

[1] Karl Marx, *Capital,* Vol. II, p. 50.

exists in all three of them at any one moment. The simultaneous existence of industrial capital in three forms is confirmed by the balance sheet of any capitalist industrial undertaking.

The circular movement of industrial capital presupposes continuity of the circuits of its individual parts–money, productive and commodity capital. If capital stops short in its first phase ($M–C$), then money capital becomes a hoard. If it stops in the phase of production, the means of production and labour power remain unemployed. And if capital halts its movement in the $C'–M'$ stage, then the commodities produced are not sold and, consequently, the circuit cannot be repeated.

Circuits of the Three Forms of Capital

Money capital serves as the initial form in the circuit of industrial capital, gives it the first impetus, and then supports the functioning of productive capital. The circuit of money capital

$$M — C \left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right. \ldots P \ldots C^1 — M'$$

most clearly describes the specific character of capitalist production, its subordination to the law of surplus value. But it masks the source of expansion of value, the exploitation of wage labour.

The main function of productive capital, as explained above, is the production of surplus value. It can fulfil this function without interruption only through its specific circuit:

$$P \ldots C' — M' — C \left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right. \ldots P.$$

The circuit of productive capital shows the continuity and periodicity of production and serves as the very basis of reproduction. But it masks the goal of capitalist production and creates the impression that the development of production under capitalism is a goal in itself.

The continuous movement of industrial capital also requires commodity capital to function uninterruptedly. The formula for its circuit is the following:

$$C' - M' - C \left\langle \begin{matrix} Lp \\ Mp \end{matrix} \right. \ldots P \ldots C'.$$

The content of the circuit of commodity capital is the process of realisation. This circuit reveals the dependence of capitalist production and its goal on the realisation of the commodities produced and on the effective demand of purchasers. If the capitalist does not sell the commodities produced, he cannot restart the circuit.

Thus, the movement of industrial capital takes place simultaneously in all its three forms. While money capital is being transformed into productive capital, functioning productive capital is at the same time being transformed into commodity capital, and commodity capital into money capital. As Marx said: "The actual circuit of industrial capital in its continuity is therefore not alone the unity of the processes of circulation and production but also the unity of all its three circuits."[1]

Common to all three forms of circuit is the expansion of value as the determining goal and motive force of capitalist production.

The movement of productive capital can only be continuous with unity of all three forms of circuit. But its continuity is usually disturbed by reason of the basic contradiction of capitalist production and the anarchic character of its development. The disturbances are observed particularly clearly in times of periodic economic crises, when factories are shut down, masses of workers thrown onto the streets, and piles of unsold commodities accumulate in warehouses and shops, spoil and are destroyed.

2. CAPITAL TURNOVER. FIXED AND CIRCULATING CAPITAL

The Turnover Time and the Number of Turnovers

As already noted above, the movement of capital is not limited to a single circuit. The very nature of capital and the specific goal of capitalist production compel the capitalist

[1] Karl Marx, *Capital*, Vol. II, p. 106.

to repeat the circuit over and over again. Marx defined it as follows: "A circuit performed by a capital and meant to be a periodical process, not an individual act, is called its turnover."[1]

In its movement, capital goes through the stage of production and two stages of circulation. It completes its turnover during a certain period of time. The total time during which all the capital value advanced passes through the stages of production and circulation comprises the *time of turnover of capital.*

The turnover time of individual capitals differs according to the different conditions of production and circulation. Thus, in the building of large hydroelectric power stations, canals and other large-scale installations, capital takes a long time to turn over, sometimes years, while in the light and food industries it may turn over in a few weeks or months.

A year is taken as the basic unit for measuring and comparing the turnover time of different individual capitals. If we designate the year as the unit of measure of turnover time by T, the time of turnover of any particular capital by t, and the number of its turnovers by n, then the number of turnovers of the given capital will be $\frac{T}{t}$. Thus, a capital that completes its turnover in three months will have four turnovers in a year ($n = \frac{12 \text{ months}}{3 \text{ months}}$), while a capital that takes 18 months to turn over will complete two-thirds of its turnover in a year ($n = \frac{12 \text{ months}}{18 \text{ months}}$). Consequently, the first capital turns over six times as fast as the second.

Fixed and Circulating Capital

Various factors affect the turnover speed of capital, one being the composition of productive capital.

Productive capital, as we know, consists of constant and variable capital, or of the value of the functioning means of production and labour power. Means of production in-

[1] Karl Marx, *Capital*, Vol. II, p. 158.

clude factory buildings, machinery, equipment, tools and implements, electricity, draught cattle, raw materials, auxiliary materials, fuel and other material factors of production.

The capital value advanced on these factors is transferred to the product by different means in the process of production. The instruments of labour (factory buildings, machinery, equipment and so on) are bought all at once and function for a more or less extensive period of time, retaining their physical form. Once fully worn out, they are scrapped and replaced by new ones. The instruments of labour participate in turnover to the extent of their wear and tear. For example, the amount of the value of a building with an operative life of 50 years transferred to the finished product each year will be 1/50th or 2 per cent. The amount of the value of a machine intended to last for ten years transferred to the finished product each year will be 1/10th or 10 per cent, and so on.

Those elements of productive capital that fully participate in production but transfer their value to the product bit by bit and return to the capitalist in money form Marx called *fixed capital.* The reimbursement of the value of the wear of fixed capital in money form is known as *depreciation.*

The capital value advanced on objects of labour turns over in a different way. In being processed, raw materials and auxiliary materials lose their former use value in a single process of production and acquire a new one. Thus, for example, the spinning and dyeing of cotton transforms it into coloured thread. Fuel, lubricating oil, etc., unlike raw materials, do not enter physically into the product, and disappear in use. The value of objects of labour is completely transferred to the product, and after the latter has been sold, returns to the capitalist in money form. That part of productive capital, the value of which is fully transferred to the newly-created commodity in the course of a single turnover and returns to the capitalist in money form, is called *circulating capital.* In practice, circulating capital also includes variable capital, though labour power does not in fact transfer its value to the product, but creates new value, part of which reimburses the capitalist's expenditure on labour

power. However, in its mode of turnover, variable capital does not differ from the circulating part of constant capital.

Consequently, Marx said, the division of capital into fixed and circulating capital arises "from the different manner in which the various components of productive capital transfer their value to the product".[1]

The division of capital into fixed and circulating capital is inherent only in productive capital. Money capital and commodity capital function only in the sphere of circulation and so are not divided into fixed and circulating capital.

The division of productive capital into fixed and circulating capital must not be confused with its division into constant and variable capital. The latter division is the result of the different roles of constant and variable capital in the production of value and surplus value. The division of productive capital into fixed and circulating capital, however, stems from the differences in the turnover of its component parts. The division of capital into fixed and circulating capital conceals the source of the growth of value and masks capitalist exploitation.

Physical Wear and Obsolescence

Fixed capital undergoes constant *physical wear and tear.* This results (1) from its use in the process of production and (2) from fixed capital being destroyed by natural forces–air, water, heat, cold and so on. Continuous use of machinery and equipment leads to wear of their most important components and parts, as a consequence of which faults and breakdowns become more frequent, and it becomes necessary to replace the most important parts or to carry out major repairs.

In addition to physical wear and tear, fixed capital also suffers obsolescence. The various items of fixed capital func-

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[1] Karl Marx, *Capital,* Vol. II, p. 170.

tion for a number of years, in the course of which technical advances occur. As a result of the application of new scientific discoveries and technical inventions in production, the productivity of labour increases, on the one hand, and machines of the same design in consequence begin to be reproduced more cheaply, while, on the other hand, more technically advanced machines are produced for the same purpose, making it possible to produce the same output with a lower expenditure of labour. In both cases, the fixed capital in operation loses some of its value: the value of a machine in operation is determined not by the socially necessary labour time embodied in it, but by that needed to reproduce a new machine. The process by which machines, equipment and other elements of fixed capital depreciate in value as a result of technical progress is known as the *obsolescence of fixed capital.* As a result of obsolescence, outdated equipment is replaced by technically more advanced machines, even though the former may still be useable.

The shorter the period over which the whole value of a machine is transferred to the product, the smaller is the loss from non-productive wear and obsolescence. Capitalists strive to reduce the danger of obsolescence of fixed capital by lengthening the working day and raising the intensity of workers' labour to the limit.

3. THE AGGREGATE TURNOVER OF ADVANCED CAPITAL

The aggregate turnover of advanced capital is the average of the turnover of fixed and circulating capital.

Let us assume that the value of all fixed capital is 150,000 dollars, of which production buildings cost 40,000 dollars and will serve for 40 years. Machinery and equipment cost 90,000 dollars and function for ten years. The value of minor equipment and tools is 20,000 dollars and their working life four years. If we also assume that there is circulating capital of 45,000 dollars and that it turns over four times in a year, then the annual turnover of the separate parts of the capital advanced and its aggregate turnover has the following form:

Components of productive capital	Value (in dollars)	Number of turnovers a year	Total yearly turnover (in dollars)
Factory buildings	40,000	1/40	1,000
Machinery and equipment	90,000	1/10	9,000
Minor equipment and tools	20,000	1/4	5,000
Total fixed capital	150,000	1/10	15,000
Circulating capital	45,000	4	180,000
Total capital advanced	195,000	1	195,000

From this example it is clear that the total capital advanced (195,000 dollars) completed one turnover in a year. The circulating capital, however, turned over four times in the course of a year and its yearly turnover amounted to 180,000 dollars. The fixed capital, worth 150,000 dollars, made only 1/10th of its turnover. The value of fixed capital is transferred bit by bit to the product and decreases annually by 15,000 dollars. The value transferred forms the depreciation fund needed to renew fixed capital.

With scientific and technical progress, opposing trends, which exert different influences on the rate of turnover, gain in strength. Intensive introduction of new technology raises the share of fixed capital, which slows down the rate of turnover of the advanced capital. At the same time, development and improvement of the instruments of labour and their use in production cheapen the existing equipment and accelerate its obsolescence, which speeds up the turnover of capital. In order to reduce losses from the obsolescence of fixed capital, capitalists strive to establish higher depreciation rates for machinery and equipment. But an artificial increase of these rates makes the product more expensive and reduces the firm's competitiveness. Capitalists strive to speed up the turnover of capital and to lower expenditure on production of commodities through maximum use of machinery and equipment and by intensifying exploitation of the workers.

4. PRODUCTION AND CIRCULATION TIME

Time of Production

Apart from the composition of productive capital, the length of production and circulation time affects the rate of turnover. *Time of production* is the time during which capital, as Marx said, "is held fast in the sphere of production". It consists mainly of the *working period*, i.e. "the number of connected working-days required in a certain branch of industry for the manufacture of a finished product"[1] and can vary considerably in length, depending on the specific features of the production in question. A road can be built in a few months, but it takes several years to build a mainline railway.

How can the working period be shortened?

First of all, the working period is shortened if the same number of workers work longer and more intensively every day. It can also be cut by increasing the number of workers working together. In the construction of canals, railways, etc., for example, building time is shortened if the number of workers is increased and work begins simultaneously at many different points.

The decisive condition for shortening the working period is an increase in the productivity of labour as a result of cooperation and division of labour and the use of more advanced equipment.

During the other part of the time of production, the objects of labour are subject to the independent effect of natural processes, physical, chemical or physiological, during which the labour process comes completely or partially to a halt. Agricultural crops, for example, require quite a long vegetative season. In the chemical industry, time is needed for reactions to take place.

During all this time of the independent action of natural forces on the object of labour, no value and surplus value are created, capital does not undergo self-expansion, and its turnover time is lengthened.

Time of production and, consequently, the turnover of capi-

[1] Karl Marx, *Capital*, Vol. II, p. 234.

tal can be shortened by speeding up the natural processes in production, through science and technology, improvement of production methods and techniques, the use of catalysts, and so on. Thus, as a result of applying a high-frequency current, the time needed to season timber and heat-treat steel parts is much shortened.

Time of production also includes the time during which capital exists in the form of production reserves. There must always be a certain reserve supply of raw and processed materials, fuel and tools, so that the production process can continue without interruption.

Thus, production time covers the working period, the time for the independent action of natural forces on the object of labour, and the time during which capital is tied up in production reserves. A reduction of production time speeds up the turnover of capital.

Time of Circulation

The turnover time of capital also depends on its time of circulation.

Time of circulation consists of the time during which commodities are transferred from their place of production to their market and the time during which their purchase and sale (or the change in the form of value) takes place.

The socially necessary time for the delivery of a commodity from its place of production to the place of sale does not differ in nature from the time of production: in the course of the given period, the commodity is transported, stored, sorted, packed and so on. All these are production processes, carried out in the sphere of circulation.

Selling time (sale and purchase) is of a completely different nature. It is connected not with production processes, but with a change in the form of value (correspondence and negotiations on the conditions of sale of the commodity; the drawing up of the commercial and money documents; sale of the commodity).

What are the factors affecting the time of circulation of capital?

The capacity of the market and the purchasing power of the population exert a decisive influence on it. With a rela-

tively narrow market, capital is left in the form of surplus stocks of commodities, and then it is necessary either to advance additional capital, in order to maintain continuity of production, or to cut production. Time of circulation also diminishes or increases according to the distance of the market.

An important condition for cutting time of circulation is the development of transport and communications and the use of railways and motor vehicles, powerful modern river- and merchant ships and transport aircraft—all of which greatly speed up the transit of commodities from producer to consumer and considerably cheapen transport.

Modern means of communication and information (post, telegraph, telephone, radio, press) make it possible to follow daily changes in the state of the world market, to negotiate and complete sales and purchases with the minimum expenditure of time, whereas a century or so ago, weeks and months were needed.

The tendency to cut the time of circulation, however, is paralysed by the specific laws of the capitalist economy. The anarchy of capitalist production and circulation, the growth of exploitation and impoverishment of the working masses reduce the possibilities of realisation. Sales slow down, stocks of unsold commodities build up and, as a result, the time of circulation of capital is lengthened.

In this way, the effect of cutting the time of circulation as a consequence of progress in the sphere of transport and communications is significantly reduced by an increase in the time of circulation arising from the contradictions of capitalism and increasing difficulties of realisation.

5. THE TURNOVER OF VARIABLE CAPITAL. ITS EFFECT ON THE MASS AND ANNUAL RATE OF SURPLUS VALUE

Factors determining the speed of turnover of capital at the same time exert a fundamental influence on the production of surplus value. Acceleration of the turnover of the capital advanced, as a whole, also means acceleration in the turnover of its variable part, and the mass and annual rate

of surplus value, in turn, depend on the speed of turnover of variable capital.

Consider, for example, two enterprises with the variable capital of 10,000 dollars each. The first turns it over in a year and the second in a month. With a degree of exploitation of 100 per cent 10,000 dollars of surplus value will be produced in the first enterprise in the course of a year, and in the second 120,000 dollars (10,000 dollars $\times$ 12 turnovers). This big difference in the annual mass of surplus value occurs as a result of differences in the rate of turnover of variable capital. The fact is that with equal value of labour power, degree of exploitation, and time of payment, the owner of the second enterprise may simultaneously hire and exploit twelve times as many workers as the owner of the first.

The velocity of turnover of variable capital not only affects the mass of surplus value, but also its annual rate. *The annual rate of surplus value* is the ratio between the mass of surplus value produced during a year and the variable capital advanced, and is equal to the actual rate of surplus value multiplied by the number of turnovers of the capital in a year, i.e. $S' = s' \times n$.

The first capitalist, having advanced 10,000v, received 10,000s in the course of one year. The annual rate of surplus value was:

$$S' = \frac{10{,}000\,S}{10{,}000\,v} \times 100 = 100 \text{ per cent.}$$

The second capitalist also advanced 10,000 v, but in the course of a year received 120,000s; the annual rate of surplus value was:

$$S' = \frac{120{,}000\,S}{10{,}000\,v} \times 100 = 1{,}200 \text{ per cent.}$$

Other conditions being equal, the mass of surplus value and its annual rate thus change in direct proportion to the number of turnovers of the variable capital advanced.

The quicker the advanced variable capital is turned over, the more surplus value is produced in a year and the higher the annual rate of surplus value.

Analysis of the process of circulation of capital leads to the conclusion that all factors directly or indirectly influencing the rate of turnover of capital are, at the same time, factors facilitating expansion of the sphere of exploitation of the wage labour by capital. The antagonistic contradictions of capitalist production are made both more complex and more acute by the contradictions of capitalist circulation.

Chapter 7

THE FORMS OF CAPITAL AND SURPLUS VALUE

The direct goal and motive force of capitalist production is the production and appropriation of the surplus value created by the surplus labour of wage workers. Surplus value is created in the process of production and realised in the process of circulation.

Karl Marx studied the production of surplus value in the first volume of *Capital.* In the second volume, he disclosed the process of circulation of capital; and in the third volume, he analysed capitalist production as a whole, as an integrity of production and circulation. Marx investigated the concrete forms of capital and surplus value as they appear on the surface of bourgeois society. In the process of circular movement, from industrial capital employed in production two forms of capital become differentiated: (a) commodity capital in the form of commercial capital, and (b) money capital in the form of loan capital. Correspondingly, in the process of realisation surplus value takes on the forms of industrial profit, commercial profit, and interest on loans, and a certain part of surplus value takes the form of rent of land.

Thus, the appropriation of surplus value expresses not only the relations of exploitation between workers and capitalists, but also the relations between capitalists, fighting among themselves for a larger share of surplus value during its distribution.

I. AVERAGE PROFIT AND PRICE OF PRODUCTION

Value and Cost Price of Production

The value of any capitalist-produced commodity (C) breaks down into the value of the constant capital consumed (c), the variable capital reproduced (v), and surplus value (s). Here, c represents previously embodied labour, and $v+s$, the new value created by the expenditure of the living labour of workers. The formula $c+v+s$ describes the nature and true source of surplus value.

On the surface of bourgeois society, some of the value of a commodity appears as the *cost price of production* ($c+v$), which represents the capitalist's outlays on production of the commodity, or what the commodity costs the capitalist. It is below the value of the commodity by the amount of surplus value. Surplus value does not enter into the cost price of production because it is created by the surplus labour of the worker and does not cost the capitalist anything.

What the commodity costs to the capitalist and what it costs to society are two quite different magnitudes. "The capitalist cost of the commodity," Marx wrote, "is measured by the expenditure of *capital*, while the actual cost of the commodity is measured by the expenditure of *labour*."[1]

Cost price of production conceals capitalist relations. In it, the difference between constant and variable capital disappears and the source of surplus value is obscured.

The Conversion of Surplus Value into Profit

Surplus value appears as the excess of the value of a commodity over the cost price of its production, i.e. as an increment to the total of the capital advanced. "In its assumed capacity of offspring of the aggregate advanced capital, sur-

[1] Karl Marx, *Capital*, Vol. III, Moscow, 1974, p. 26.

plus-value takes the converted form of *profit.*"[1] If we designate profit by p and cost price by k, the formula $C = c + v + s$ becomes $C = k + p$. Commodity value now appears as cost price of production plus profit.

The value of a commodity in the form of $k + p$ already has no visible connection with labour. Both its parts appear in transmuted form: cost price as the result of expenditure of the capital advanced and not of labour, and profit as the outcome of this same advanced capital and not of the surplus labour of workers. Capitalist exploitation is concealed and is not visible on the surface, a fact that is widely employed by bourgeois economists in defence of capitalism to deny that workers are exploited by capitalists.

The capitalist appropriates surplus value in the form of profit after realisation of the commodity. There can therefore be a quantitative discrepancy between the amount of surplus value created by the labour of workers in an individual capitalist enterprise and the amount of profit realised by the capitalist in the price of the commodity.

Thus, profit is a transmuted form of surplus value. It appears on the surface of capitalist society not as the result of exploitation of workers but as the outcome of the total capital advanced.

The Rate of Profit

The main stimulus to the development of capitalist production is the extraction of profit. Each capitalist strives to obtain maximum profit from the use of his capital. Its absolute magnitude, or the mass of profit, however, still does not show the degree of return on the use of the capital and the speed of its self-expansion. The degree of self-expansion of capital is determined only by the rate of profit. The ratio of surplus value to the total capital advanced in percentage terms, is called the *rate of profit.* We represent it conventionally by p' and express it by the formula

$$p' = \frac{s}{c+v} \times 100, \text{ or } p' = \frac{s}{C} \times 100,$$

[1] Karl Marx, *Capital*, Vol. III, p. 36.

where C is the advanced capital.

Usually, the rate of profit means its annual rate, i.e. the percentage ratio between the mass of surplus value obtained in the course of a year and the capital advanced. Thus, if 100 units of capital are advanced, which break down into $80c + 20v$, then, with a 100 per cent rate of surplus value, the rate of profit will be:

$$p' = \frac{20\,s}{80\,c + 20\,v} \times 100 = 20 \text{ per cent, or}$$

$$p' = \frac{20\,s}{100\,C} \times 100 = 20 \text{ per cent.}$$

The rate of profit is the *transformed form of the rate of surplus value.* It is the same surplus value, but measured differently, that is, not by its ratio to variable capital $\left(\frac{s}{v}\right)$, but by its ratio to the total capital advanced $\left(\frac{s}{c+v}\right)$. Like profit itself, it disguises the source of the expansion of value, i.e. the exploitation of wage labour.

Factors Affecting the Rate of Profit

The rate of profit depends, *first,* on the rate of surplus value–the higher the rate of surplus value, the higher is the rate of profit. If, in our example, the rate of surplus value is raised, for instance, to 200 per cent, then the rate of profit is doubled and will be

$$\frac{40\,s}{100\,C} \times 100 = 40 \text{ per cent.}$$

Second, the rate of profit depends on the organic composition of capital. With a low organic composition, the share of variable capital is higher and therefore more surplus value is created for the same total capital than with a high organic composition. For example, with the same rate of surplus value (100 per cent), a capital consisting of $70c + 30v$ brings in 30 per cent profit, while one consisting of $80c + 20v$ brings in only 20 per cent.

Third, the speed of turnover of capital also affects the rate

of profit, which increases in direct proportion to the number of turnovers. Let us assume that a capital consisting of $80c + 20v$ makes a single turnover in the course of a year and grows by $20s$. The yearly rate of profit is then 20 per cent. If the same capital made two turnovers in the year, the capitalist would then be able to exploit twice as many workers and extract twice as much surplus value. The annual mass of surplus value would be $40s$ or 40 per cent profit on the capital advanced.

Fourth, saving of constant capital plays a significant role in raising the rate of profit. It can be achieved through using more advanced or cheaper machinery and equipment, applying scientific discoveries and inventions, and utilising production wastes or by-products, and also by cutting expenditure on safety and by worsening working conditions. As Marx wrote: "In line with its contradictory and antagonistic nature, the capitalist mode of production proceeds to count the prodigious dissipation of the labourer's life and health, and the lowering of his living conditions, as an economy in the use of constant capital and thereby as a means of raising the rate of profit."[1] An economy in the use of constant capital reduces cost price of production and at the same time increases the mass and rate of profit. As a result of capitalist rationalisation and economies on safety, the incidence of occupational diseases and accidents in industry, leading to disablement and death, increases sharply.

Intra-Industry Competition and Formation of the Social Value of Commodities

In the race between capitalists to increase profits, a fierce competitive struggle develops. Karl Marx considered two forms of competition—within an industry and between industries.

Intra-industry competition develops between capitalists producing the same type of commodity for more profitable sales and extra profits. In competition within an industry victory goes to the capitalists who can sell cheaper than their rivals.

[1] Karl Marx, *Capital*, Vol. III, p. 86.

Capitalists producing similar commodities have businesses and enterprises of different capacities and different standards of technical equipment, and that gives a difference in the productivity of labour with the result that cost price of production and the value of the commodity are not the same in different undertakings. But however much individual values may differ, they inevitably become equalised during competition to the social or market value. The social value is determined by the individual value of the commodities "produced under average conditions of their respective sphere and forming the bulk of the products of that sphere".[1]

Since market value is determined by the average conditions, those enterprises in which the individual value is lower than the social value obtain additional profit, in the form of extra surplus value, while those enterprises in which the individual value is higher than the social value cannot compete. They are squeezed out, go bankrupt, and are swallowed up by their bigger rivals.

One of the methods of intra-industry competition is the sale of commodities below their value. The law of capitalist competition, as Marx pointed out, is based on the "difference between the value and the cost-price of commodities, and on the resulting possibility of selling a commodity at a profit under its value".[2]

Thus, intra-industry competition leads to formation of the social or market value of a commodity, and stimulates technical progress in production; but at the same time it engenders a striving to keep new technological inventions a secret and not to allow others to use them. This drive is particularly strong in the conditions of monopoly capitalism.

Inter-Industry Competition and Formation of General (Average) Profit

Inter-industry competition is competition between capitalists in different industries for more profitable use of capital. Competition within an industry equalises individual values

[1] Ibid., Vol. III, p. 178.
[2] Ibid., p. 37.

of commodities in social value, but that does not mean that they will be sold at their social value. The commodities of different industries are exchanged not simply as commodities but as the products of capital. It is all the same to capitalists what kind of commodity they produce; they are only interested in profit and therefore they lay claim to profits corresponding to the size of their capitals.

We have already noted above that the organic composition of capital is different in different industries. Other conditions being equal, therefore, differences in rates of profit are also inevitable. Let us assume that there are three industries with the same amounts of capital but with different organic compositions, say, the leather, textile, and engineering industries. To avoid complicating things, let us assume that the rate of surplus value, the turnover of capital, and the cost price of production are the same in all three industries, and that the capitals advanced are completely consumed in the course of one year. Then we get a table like the following:

Industry	Capital	Rate of surplus value (in per cent)	Surplus value	Value of product	Rate of profit (in per cent)
Leather	$70c + 30v$	100	30	130	30
Textile	$80c + 20v$	100	20	120	20
Engineering	$90c + 10v$	100	10	110	10
Total	$240c + 60v$	100	60	360	20

These figures show that selling commodities at their value, the capitalists will receive different rates of profit: in the first industry of 30 per cent, in the second of 20 per cent and in the third of 10 per cent. Such sharp differences in rates of profit cannot, however, be maintained for long. Each capitalist strives to obtain the maximum profit. In pursuit of maximum profits, under free competition, capitalists will invest their new capital in more profitable industries, in our example, in the leather industry. A massive inflow of capital, and with it of labour, into these industries will give rise to an

excess of supply of the given type of commodity over demand, a divergence of prices below value, and a fall in the rate of profit.

In industries with a low rate of profit, on the contrary, the development of production will slow down, and supply drop below demand, so that prices of commodities will rise above value and the rate of profit will go up. The flow of capital from one industry to another results in the rate of profit in all three industries becoming levelled up in the general or average rate of profit.

In our example, the total social capital is $240c + 60v$. The total mass of surplus value created in all these industries is $60s$. The ratio between the mass of surplus value and the total social capital is the general or average rate of profit

$$p' = \frac{60\,s}{240\,c + 60\,v} \times 100 = 20 \text{ per cent.}$$

The competition between industries thus equates the different rates of profit in the *average rate of profit* through the constant transfer of capital from one industry to another. *The average (or general) rate of profit* is consequently an expression of the percentage ratio of the aggregate surplus value created by the whole working class to the social capital invested in all branches of production.

The transformation of profit into average profit results in commodities beginning to be sold not at their value, but at their price of production, which is equal to the cost price of production plus the average profit on the capital advanced.

As the table below indicates, the commodities produced in each of the three industries are now sold at their prices of production, i.e. at 120 monetary units. In those industries in which the organic composition of capital is below the average, more surplus value is produced than is realised in the form of average profit (in our example, in the leather industry). On the other hand, in industries with a high organic composition of capital, less surplus value is produced than is realised as average profit (in our example, in the engineering industry). The excess of surplus value over average profit (10) created in industries with a low organic composition is realised by the capitalists in the industries in which the organic composition is higher.

Industry	Capital	Surplus value	Value of commodities	Cost price of production	Average profit	Price of production	Divergence of price of production from value
Leather	$70c + 30v$	30	130	100	20	120	—10
Textile	$80c + 20v$	20	120	100	20	120	0
Engineering	$90c + 10v$	10	110	100	20	120	+10
Total	$240c + 60v$	60	360	300	60	360	0

The surplus value created in society is consequently distributed between the different groups of capitalists according to the size of the capitals they have advanced. But that must not be understood as a direct distribution of profits. This situation arises spontaneously as a result of fierce competition between capitalists.

The striving of capitalists to obtain maximum profit leads to continuous fluctuations in the rates of profit in individual industries around the average. "Under capitalist production," Marx wrote, "the general law acts as the prevailing tendency only in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations."[1]

With the formation of the average rate of profit the basic economic law of capitalism, the law of surplus value, begins to operate through the law of average profit.

Price of Production as a Transmuted Form of Value

The formation of a general rate of profit and the equation of surplus value to average profit lead inevitably to the transmutation of value into price of production. Under capitalism, commodities are not sold at their value but at their *price of production*, which differs from value both in form and magnitude. The value of a commodity is materialised

[1] Karl Marx, *Capital*, Vol. III, p. 161.

abstract human labour. Its magnitude is determined by the socially necessary labour time. The price of production is determined by the cost price of production, i.e. by the expenditure of capital and by average profit. Outwardly both parts of the price of production are linked not with the labour of the worker but with capital; and this impression is strengthened by the quantitative discrepancy according to industry between price of production and value.

After the third volume of *Capital* was published (1894), the apologists of capitalism declared that there was a contradiction between Volumes I and III, between Marx's doctrine of value and surplus value and his doctrine of price of production and average profit, and proclaimed the "overthrow" of Marx's labour theory of value and surplus value.

In fact, the theory of average profit not only does not contradict the theory of value, but is an extension and further development of it. In his article "Karl Marx", Lenin emphasised that "Volume Three of *Capital* solves the problem of how the *average rate of profit* is formed on the basis of the law of value".[1]

The price of production is a transmuted form of value. This is confirmed above all by the fact that the sum total of prices of production for the whole of society coincides with the value of the total mass of commodities. In our example (see table, page 212), the sum total of the values of the commodities is 360 units and the sum total of prices of production is also 360 units. This is also confirmed by the fact that a change in the value of commodities inevitably causes a change in the level of prices of production.

Thus, the process of the conversion of profit into average profit and of value into price of production is the process by which surplus value is distributed between industrial capitalists according to the principle of "equal profit for equal capital".

Under capitalism, the law of value does not operate directly, but through the law of the price of production. The prices at which commodities are bought and sold on the market no longer fluctuate about value but about the price of production. As a result of the competition between

[1] V. I. Lenin, *Collected Works*, Vol. 21, p. 66.

industries and the flow of capital from one to another, the distribution of labour and means of production between different sectors of the economy takes place spontaneously.

Marx showed that the transmutation of value into price of production is a real historical process, taking place in conjunction with the transformation of simple commodity production into capitalist. The law of value, according to Engels, has been operating for five to seven thousand years. The law of price of production operates only in capitalist society.

The theory of average profit and of price of production developed by Marx is one of his most important theoretical discoveries. It is of enormous significance for thorough understanding of the causes aggravating not only the contradictions between workers and capitalists, but also sharpening those between different groups of capitalists.

The Law of the Tendency of the Rate of Profit to Fall

As capitalist production develops the average rate of profit tends to fall, which is caused by the rising of the organic composition of the total social capital. The pursuit of high profits prompts capitalists to raise the productivity of labour by introducing new technology and techniques. As a result, the technical composition of capital (i.e. the ratio between the means of production and the labour power employed in production) rises continuously, and this, in turn, brings about a rise in the organic composition of social capital and a fall in the rate of profit.

Let us illustrate this with the following table:

Capital	Rate of surplus value (in per cent)	Surplus value	Organic composition of capital	Rate of profit (in per cent)
$70c + 30v$	100	30	$2.3c : 1v$	30
$200c + 50v$	100	50	$4c : 1v$	20
$630c + 70v$	100	70	$9c : 1v$	10

In our example, the mass of surplus value increased from 30 to 70 units but the rate of profit fell from 30 to 10 per cent. This is explained by the fact that the growth of social capital was accompanied with a rise in its organic composition and a fall in the proportion of variable capital in the total social capital from 30 to 10 per cent.

A fall in the rate of profit does not signify a decreasc in the mass of profit, even when the rate of surplus value remains unchanged. On the contrary, the mass of profit grows, since the total number of workers being exploited increases (in our example, variable capital rose from 30 to 70), and increases even more from intensifying the degree of exploitation of wage labour.

Factors Counteracting Fall of the General Rate of Profit

In reality, the rate of profit does not change in proportion to the risc in the organic composition of capital. A number of counteracting factors mitigate the operation of the general law, giving it the character of a tendency. For that reason, Marx called it the *law of the tendency of the rate of profit to fall.*

The main factor counteracting fall of the rate of profit is a higher degree of the exploitation of labour power. In the nineteenth century, the rate of surplus value in developed capitalist countries was about 100 per cent; at the present time it is upward of 300 or 400 per cent and even more.

The essential factor counteracting a fall in the rate of profit is the falling of wages below the value of labour power, which has two consequences: (1) with a given, or even an increased, number of exploited wage workers, the amount of variable capital advanced decreases; and (2) profits increase at the expense of workers' wages.

The fall in the general rate of profit is also held back by the growth of relative surplus population, which serves as the basis for the existence of technically out-moded enterprises and industries, where variable capital comprises a significant proportion of the capital advanced and wages are below average. The existence of industries with a low organic composition of capital, in turn, increases the total mass of

surplus value, which arrests the fall of the average rate of profit.

The counteracting factors also include a cheapening of the elements of constant capital (machinery, equipment, fuel, raw and auxiliary materials, and so on).

A role of no little significance in arresting the fall of the general rate of profit is played by foreign trade and the export of capital to other, especially the developing countries. (1) Foreign trade, by supplying cheaper means of production and consumer goods for the workers from abroad, enables capitalists to exploit a larger number of workers and to raise the rate of surplus value advancing the same amount of capital. (2) Capital invested in countries with less developed economy as a rule yields a much higher rate of profit, which increases the total mass and rate of profit in the capital-exporting country.

The factors enumerated above weaken the effect of the law of fall in the average rate of profit and render it a nature of a tendency that manifests itself over long periods of time.

Some bourgeois economists noticed this tendency as early as the beginning of the nineteenth century, but they were unable to explain its true causes. Starting from the false assumption that capitalism is eternal, they suggested that the causes lay in the laws of nature.

Karl Marx substantiated scientifically that the limits of capitalist production lie not in the laws of nature, but in capital itself, in the specific laws of the capitalist mode of production.

The law of the tendency of the rate of profit to fall reflects the contradiction between the goal of capitalist production and the means of attaining it. The direct aim and motivation of capitalist production is the production of surplus value and maximising of profits. To attain their goal, capitalists are compelled to develop the productive forces and to raise the productivity of labour. As a result, however, the organic composition of social capital rises, the proportion of variable capital falls, and so the general rate of profit sinks. The law of the tendency of the rate of profit to fall thus reflects the historically limited character of the capitalist mode of production.

Contemporary monopoly capital, in its attempts to overcome the tendency for the rate of profit to fall, increases exploitation of the working class and small producers, robs the peoples of developing countries, and intensifies militarisation of the economy and the arms race. These measures, however, do not strengthen capitalism, but lead to further sharpening of all its contradictions.

The Significance of Marx's Theory of Average Profit for the Class Struggle

Theoretical questions of the formation of the average rate of profit and of the price of production are of enormous significance for the development of the revolutionary struggle of the proletariat. Marx's theory of average profit convincingly demonstrates that capitalists, while competing fiercely with each other for the most profitable application of capital, at the same time act as a united class, exploiting the working class together, and struggling for systematic raising of the degree of exploitation. Since the average rate of profit is the ratio between the aggregate surplus value and the total social capital, it expresses the antagonistic relations between the classes. "Here, then," Marx wrote, "we have a mathematically precise proof, why capitalists form a veritable freemason society vis-à-vis the whole working-class, while there is little love lost between them in competition among themselves."[1]

The working class must oppose the united front of the bourgeoisie with its own united proletarian front. This conclusion, which follows directly from Marx's teaching on average profit, is the theoretical basis of the policy steadily pursued by Marxist-Leninist parties, aimed at ensuring unity of the working-class movement and of all revolutionary forces in the struggle against capitalism.

Being exploited by the class of capitalists, united by its common economic interests, the workers cannot limit their struggle to their direct bosses alone, but must fight against the capitalist class as a whole. In order to obtain a radical improvement in their lives, workers act in an organised way, under the leadership of revolutionary parties, against the

[1] Karl Marx, *Capital*, Vol. III, p. 198.

domination of the bourgeoisie, against the whole system of capitalist slavery, and for liberation from all forms of exploitation and oppression. Only if united and organised as a class can workers, in alliance with all other working people, overthrow the domination of the bourgeoisie, win political power, and accomplish the revolutionary transition from capitalism to socialism.

2. COMMERCIAL CAPITAL AND COMMERCIAL PROFIT

Trading or merchant's capital historically preceded industrial capital and appeared long before the capitalist mode of production. In Marx's definition, merchant's capital, along with usury capital, is the most ancient form of capital. In order to function, it required a certain level of development of commodity production and of commodity and money circulation. These conditions existed long before capitalism and were the material prerequisites for the appearance of merchant's capital.

The function of merchant's capital, from the very beginning, was to cream off profit by being the intermediary in commodity exchange. The form of movement of merchant's capital is $M - C - M^1$ (purchase for the sake of sale at a profit).

Commercial Capital as a Separate Part of Industrial Capital

Under the conditions of developed capitalist production, the bulk of commercial capital is the result of its separation from industrial capital and its transformation into independently functioning capital. The separation of commercial capital is caused by the movement of industrial capital in the process of reproduction. Industrial capital, in its circular movement, as was shown in Chapter 6, passes regularly through three stages and, at the same time, is found in three functioning forms: money, productive, and commodity. In

the third stage the movement of capital consists of the conversion of commodity capital into money capital (C^1–M^1). The main task of the industrialist is the production of surplus value, and the function of the final realisation of the commodity, i.e. its passage into consumption, is subsidiary for him. It therefore becomes separated off and becomes the sphere of activity of a special group of capitalists engaged exclusively in the realisation or sale of commodities. The separation of commercial capital helps speed up the turnover of industrial and total social capital and consequently increase of profit.

Commercial capital takes no direct part in the production of value and surplus value; but, by looking after the realisation of the commodity capital of many production undertakings at a time, the commercial capital reduces the amount of capital that must remain in the sphere of circulation and increases the amount of capital employed in production, which, *ceteris paribus,* leads to growth of the mass of profit. The commereial capitalist encourages expansion of the market, specialisation of production, and the social division of labour. He realises commodities more rapidly since he is more familiar with the sphere of circulation than the industrial capitalist. All this promotes a considerable reduction of time of circulation and speeding up of the turnover of capital.

The industrialist could himself sell his eommodities to consumers but in that case he would have to invest additional capital in carrying out operations connected with the realisation of commodities and that, with the same amount of capital, would inevitably lead to a cut in the scale of production or to periodic halts in production during the time of realisation. In every case there would be a fall in the rate of profit. It is more profitable, therefore, for the industrialist to hand over the function of realising commodities to the commercial capitalist.

The industrialist sells the commodity to a commercial capitalist, and the latter sells it to consumers and finally converts the commodity capital into money capital.

The Participation of Commercial Capital in the Distribution of Surplus Value

Neither surplus value nor value is created in circulation. Where, then, does the profit of commercial capitalists come from? Bourgeois economists try to show that it arises in circulation. In reality, the surplus value falling to the share of commercial capital in the form of average profit is part of the surplus value created by wage workers in production. Industrial capitalists concede the capitalist merchants attending to the sphere of circulation part of the surplus value for realising the commodities created in production.

The commercial capitalist must receive the same rate of profit as other capitalists who have invested their capital in some sector of material production. If commercial capital brought in a lower rate of profit, merchants would try to invest it in production.

Inter-industry competition leads to transfer of capital from one sector of the economy to another, including from the sphere of production to that of circulation and *vice versa*, which means that surplus value breaks down into industrial and commercial profit in proportion to the amount of capital participating in the production and realisation of commodities.

Karl Marx illustrated the process of the dividing up of surplus value and the participation of commercial capital in levelling up the average rate of profit by the following example. Suppose the total industrial capital advanced and functioning in the sphere of material production in the course of the year equals $720c + 180v = 900$ monetary units. With a degree of exploitation of 100 per cent (s') and, on the condition that all the value of the constant capital is transferred to the product, the value of the year's output will be $720c + 180v + 180s = 1{,}080$. Without taking account of the capital employed in realisation of the commodity, the average rate of profit will be:

$$p' = \frac{180\,s}{720\,c + 180\,v} \times 100 = 20 \text{ per cent.}$$

But realisation of the commodities necessitates the advancing of additional capital. Let us assume that 100 units of com-

mercial capital are added to the 900 of industrial capital. Then the total social capital will be 900+100=1,000 and the average rate of profit for the total social capital will be:

$$p' = \frac{180\,s}{1{,}000\,C} \times 100 = 18 \text{ per cent.}$$

This rate of profit becomes the general index of the profitability (yield) of both industrial and commercial capital.

The mass of profit received by the industrial capitalists, corresponding to the capital advanced by them, consists of $p = \frac{900 \times 18}{100} = 162$ monetary units, and profit on commercial capital will be $\frac{100 \times 18}{100} = 18$ monetary units.

The industrial capitalists sell the commodities to merchants at a price of $720c+180v+162p=1{,}062$ monetary units, i.e. at less than value. The merchants then sell these commodities directly to consumers at the social price of production, equal to the value of the social product: $720c+180v+162p+18h=1{,}080$ monetary units, where p is industrial profit and h is commercial profit.

Commercial profit arises as a result of the purchase of commodities by commercial capitalists at a price below their value and their sale at a price coinciding with their value. Thus, the class nature of the commercial and industrial capitalist is one and the same. These groups of the bourgeoisie exist thanks to capitalist exploitation of workers.

The source of both industrial and commercial profit is the same—the surplus value created in production. Intensification of the exploitation of the workers employed in the sphere of material production therefore corresponds to the interests of both groups of the bourgeoisie. The exploitation of wage workers is the basis of the class solidarity of the industrial and commercial bourgeoisie.

Costs of Circulation

The realisation of commodities requires corresponding expenditure, the costs of circulation. Marx drew a distinction between two types of costs of circulation: (a) additional and (b) net or genuine costs.

Additional costs of circulation are the outlays necessitated by extension of the process of production into the sphere of circulation: such as the finishing and packing of goods, the storage of stocks of commodities, and the transportation of commodities from the place of production to the selling points. These functions are of a productive character. The workers employed on these operations transfer to the commodities, by their labour, the value of the means of production consumed and add new value to the value of the commodity. Additional costs, which do not in essence differ from costs of production, are also met from this value. The specific feature of the productive labour employed in commodity circulation is that it does not create new use value, but maintains and raises the availability of the products of labour already created for consumption.

Net or genuine costs of circulation are more characteristic of capitalist trade than additional costs. They include expenditure connected mainly with the conversion of the commodity form of value into the monetary form without which commodities cannot be realised.

Net costs of circulation include outlays connected with the calculation of commodity prices, with the operations of the purchase and sale of commodities, the book-keeping, the calculation of money receipts and expenditure, the costs of advertising, etc. Net costs of circulation are non-productive and are paid for from the surplus value created in production. Under contemporary capitalism, when monopolies inflate prices significantly above values, the net costs of circulation are transferred *en masse* to consumers and, above all, to the working people.

In capitalist countries as a whole, costs of circulation amount to 30 or 50 per cent of the value of retail turnover. Over two-thirds of all costs of circulation are net costs.

A tendency for the level of costs of circulation to rise is inherent in the capitalist system of economy and is an inevitable result of the deepening of the contradictions of capitalism. Particularly large amounts are spent in all capitalist countries on advertising in its diverse forms. In the USA, for example, expenditure on advertising rose nearly 12-fold between 1939 and 1970 to 19,700 million dollars, which was more than the national income of Brazil, the second biggest

country in the Western Hemisphere, with a population of around 100 million.

As the difficulties of marketing increase and competition becomes keener, many of the additional costs of circulation increasingly turn into non-productive net costs.

The Exploitation of Commercial Employees and Small Commodity Producers by Commercial Capital

Commercial employees do not create surplus value, but they, like all wage workers employed in the sphere of material production, are exploited by capital. The labour power of commercial workers is also a commodity and their wages are a transmuted form of value and the price of labour power. The working day of commercial workers is also divided into necessary and surplus labour time.

However, the form of exploitation of commercial workers and employees has its own particular features. In the course of necessary labour time, workers employed in trade realise for the commercial capitalist the mass of surplus value created in production and needed to cover expenditure connected with the purchase of labour power. During surplus labour time, the part of the surplus value that the commercial capitalist obtains in the form of commercial profit is realised. "Just as the labourer's unpaid labour directly creates surplus-value for productive capital," Marx wrote, "so the unpaid labour of the commercial wage-worker secures a share of this surplus-value for merchant's capital."[1]

The greater the unpaid labour of commercial workers, the higher the degree of their exploitation, the lower the net costs of circulation and the greater the surplus value appropriated by commercial capitalists in the form of commercial profit.

As capitalism develops there is an increase in the degree of exploitation of commercial workers, which is achieved mainly by lengthening the working day, increasing the inten-

[1] Karl Marx, *Capital*, Vol. III, p. 294.

sity of labour and reducing wages below the value of lahour power. Even bourgeois economists acknowledge the difficult working conditions in trade, where the working day is longer than in other sectors of the economy and wages are lower.

Commercial firms make considerable profits from the exploitation of petty commodity producers. The main form of exploitation of peasants and artisans in the sphere of circulation is non-equivalent exchange through selling them commodities at artificially high prices and huying raw materials, foodstuffs and finished goods from them at prices helow value. The considerable differences in prices that result from this (known as the discrepancy or "price scissors") are appropriated hy commercial capitalists.

Today commercial monopolies roh the whole working population, including the peasantry, by the extension of speculative consumer credit. When buying on instalment, the purchaser pays out a special supplement in addition to the price of the commodity and also the interest on the credit of 40 per cent of normal retail price. This form of trade is thus a special method of increasing the profits of merchants and hankers.

As a result of the development of consumer credit, the degree to which the population of capitalist countries are in debt has risen enormously. In the USA, for example, arrears due to consumer credit rose from 7,200 million dollars in 1939 to 188,000 million in 1974, i.e. hy 26 times. That does not include other forms of credit, in particular credit advanced to consumers to huy houses or flats, or credit obtained hy mortgaging land, houses, or other real estate.

Forms of Capitalist Trade

Depending on the sphere in which commercial capital functions, the capitalist trade is divided into home and foreign trade.

Home trade serves the economic links on the national (home) market. In realisation of the social product in economically developed capitalist countries it occupies the leading place in volume (up to 80 per cent).

Wholesale trade must he distinguished from retail trade.

Wholesale trade is primarily trade hetween industrial and commercial capitalist husinesses. It is characterised by hulk transactions, and specialisation in the purchase and sale of a single commodity or group of commodities (grain, timher, coal, and so on). Only the big hourgeoisie engage in wholesale trade, determining market and credit conditions and receiving the larger share of commercial profit. As it has developed, wholesale trade has taken different forms (fairs, special wholesale markets, sample trade, commodity exchanges, etc.).

Retail trade is the realisation of commodities directly to consumers. Two special features distinguish it from wholesale trade: (1) retail husinesses usually sell a varied assortment of commodities; and (2) goods are sold for personal consumption and therefore in small lots. In retail trade, business is concentrated in the hands of the owners of hig department stores and specialised shops, shops with standard prices, and multiple shops or chain stores.

In the post-war years self-service shops have hecome common in capitalist countries.

In connection with the increasing difficulties of marketing, monopolies are using new forms of trade, e.g. instalment selling (hire-purchase), mail-order selling, and so on. Such measures cannot, however, eliminate capitalism's inherent contradiction between production and the low effective demand of the masses.

A characteristic of the capitalist mode of production is the increase in exchange between countries through *foreign* trade. Thus, between 1960 and 1974 inclusive, the foreign trade of capitalist and developing countries increased from 230,000 million dollars to 1,544,000 million dollars in current prices, or hy 570 per cent, which far exceeded their growth of production.

Foreign trade consists of import and export of commodities. The results of a country's foreign trade are reflected in its *balance of trade*, i.e. the ratio (in prices) between the exports and imports in a specific period of time (quarter or year). The balance of trade shows the difference between sum total of prices of the commodities exported and imported. It is called favourahle or active when exports exceed im-

ports; when imports exceed exports it is passive or unfavourable.

With an unfavourable trade balance, a state is compelled to cover the difference with gold or foreign exchange, or to resort to requesting credit. Every country therefore strives to export more commodities and import fewer, in order to have an active trade balance.

The countries finalise their claims and debts not on the basis of the balance of trade, but on the basis of the *balance of payments*, which is the ratio between the total payments coming into the country from abroad and the total of those it itself makes to other countries over a certain period of time. The balance of payments includes transfers connected with foreign trade, capital investments, payments for services, expenditure on foreign tourism, and so on. A country can have an unfavourable balance of trade but not be a debtor if it has a favourable balance of payments and *vice versa*. In the past, Britain often had an unfavourable balance of trade, but, at the same time, a favourable balance of payments, since payments coming in from abroad (from capital investments, the charter of ships, etc.) completely made up for the negative balance of trade.

The character of the economic links between countries in the world capitalist system also determines their foreign trade policy, which has its own specific features in each period of history. In the period of pre-monopoly capitalism, two basic types of foreign trade policy took shape: (1) the policy of protection for the development of home industry or protectionism; and (2) the policy of free trade. In the imperialist period, the policy of free trade gives way to imperialist protectionism, i.e. the trade policy of financial tycoons aimed at monopolising the home market and capturing foreign markets in order to cream off high monopoly profits under the protection of the bourgeois state.

The Role of Commercial Capital in Sharpening the Contradictions of Capitalism

Commercial capital, occupying the dominant position in the sphere of commodity circulation, reduces the time of circu-

lation of all capital, furthers the expansion of the home and foreign markets, the specialisation of production and growth of the social division of labour, and encourages acceleration of the reproduction of total social capital.

At the same time, commercial capital sharpens and deepens the contradictions of capitalism. Above all, it aggravates the contradiction between production and consumption. Being separate from and seemingly moving independently of capitalist production, commercial capital increases commodity stocks above the necessary level, expands stock-market speculation, and creates a fictitious demand for goods that far exceeds the real effective demand of the consumers. This masks the basis of crises of overproduction and increases their destructiveness.

Difficulties of marketing and slowing down of the rate of turnover of commercial capital give rise to a growth of net costs of circulation and lead to an increase in the prices of consumer goods. That intensifies the degree of exploitation of the working people, which, in turn, intensifies the class struggle of the proletariat and peasantry against the bourgeoisie.

Commercial capital serves as an instrument for enslaving and plundering the peoples of developing states by imperialist monopolies, which inevitably deepens the contradiction between the handful of imperialist powers and the countries that have won political independence.

The socialisation of production and labour in industry and agriculture is complemented by socialisation in trade, which still further aggravates the basic contradiction of capitalism.

3. LOAN CAPITAL AND CREDIT

The Genesis of Loan Capital

Loan capital is interest-bearing capital. The initial form of money capital bearing interest was usurer's capital, which existed as an independent form of capital in both the slave-owning and the feudal systems. One of the characteristics of usurer's capital was the excessively high rate of interest

(40, 50, 100 per cent, and higher). Usury, by entangling slave-owners, feudal lords, and peasants in debt, led to undermining of their economies and a decline in the productive forces of the slave-owning and feudal modes of production.

The rising industrial and commercial bourgeoisie required credit to carry on its commercial operations, but industrialists and merchants were unable to make use of usurer's credit with its excessive interest rates, which often exceeded the amount of industrial or commercial profit. Because of that, a stubborn struggle of the growing industrial bourgeoisie developed against usury, for lower rates of interest.

Industrial capital and the credit system created by it gradually squeezed usurer's capital into second position. For small commodity producers, particularly for peasants, loan capital typical of capitalism is not always available even today. Large capitalist banks often refuse to extend credit to small producers, since they are not considered credit-worthy, so they continue to be cruelly exploited by usurer's capital, particularly in the developing countries.

Loan Capital

Loan or interest-bearing capital is engendered by industrial capital itself. Its sources are formed during the movement of industrial capital.

Industrial capital, as noted above, passes through three stages in its circular movement. Some of it is released periodically over longer or shorter periods of time in money form. Depreciation allowances on renovation of fixed capital, above all, become free for a certain time. While the elements of fixed capital continue to serve in production, depreciation allowances accumulate year by year. Some of the surplus value that the capitalist uses to expand production also proves to be temporarily free. While the surplus value intended for capitalisation is below a certain amount, it is accumulated in the form of money. Part of the surplus value destined by the capitalist for his own personal consumption also accumulates in the form of money.

Temporarily free money capital also comes into capitalists' hands when they receive cash from the sale of their output before the time has come to pay workers their wages and to buy raw materials, fuel, etc.

Thus, the circular movement of industrial capital leads inevitably to the formation of temporarily free money capital.

While some capitalists have free money capital, which they cannot use for the time being, others, on the contrary, require additional loan capital, for example, to expand production, to buy seasonal raw materials, or for other needs. The temporarily free money capital of some capitalists can therefore be put out on loan, i.e. for the temporary use of other capitalists who need it. The monetary form of industrial capital thus becomes separated off as a special form of capital–as interest-bearing or loan capital.

Capital put out on loan is used by the borrower to extract profit through exploitation of wage workers. It manifests the relationship between money capitalists and functioning capitalists, i.e. industrialists and merchants or traders.

How are transactions made between creditors and borrowers, and what is the object of the transaction?

When a functioning capitalist is granted a loan, a particular kind of sale of money as a special commodity, capital, takes place. In addition to its use value as money, as a means of purchase or payment, money acquires another, special use value under capitalism consisting of its ability to become capital and to yield profit. It is this special use value of money that the functioning capitalist buys for a specific time and that the loan capitalist sells. Thus, money capital becomes a commodity *sui generis* with a specific use value. The interest on the loan acts as the price of capital as a commodity.

The Essence of Interest

Money capital is only handed over for a time and must be returned to the owner with the payment of interest. The movement of loan capital is expressed by the formula: $M–M'$. The impression is created that money itself possesses

the property of bearing profit. In reality, interest is only received on loan capital because, in the hands of the borrower, the capital goes through its proper circuit, i.e. is converted from money capital into productive capital and absorbs the surplus value created by wage workers in production.

Interest is payment for the use of the use value of loan capital, and a kind of price of capital as a commodity. If a certain sum of money, e.g. 1,000 dollars, is lent out at an annual rate of interest of 4 per cent, the price of the thousand dollar capital will be 40 dollars. It is quite obvious that, in this case, price is not an expression of value; and this is why Marx called interest the irrational price of loan capital. Interest, in its essence, is nothing other but part of average profit that the functioning capitalist pays to the owner of the capital for the use value of the capital granted as a loan. Loan interest is a special form of surplus value created by the labour of wage workers in the process of production and appropriated by the loan capitalist.

The Rate (Level) of Interest and Factors Determining It

The rate of interest is the ratio of the amount of the annual income received on loan capital to the sum of the capital granted as a loan. For example, on 100,000 dollars lent as capital, a yearly income is received in the form of interest to the amount of 5,000 dollars, the rate of interest is

$$\frac{5{,}000 \text{ dollars} \times 100}{100{,}000 \text{ dollars}} = 5 \text{ per cent.}$$

The rate of interest on the loan depends on the average rate of profit and is determined by the ratio between the supply and demand for loan capital. If there is a lot of free money capital and the demand for it is small, the rate of interest will fall. If, on the contrary, demand for loans is high but the amount of capital offered on loan diminishes, the rate of interest will rise. The average rate of profit can be taken as the upper limit of the rate of interest. The minimum limit of interest, as Karl Marx pointed out, cannot be

defined at all. It can fall to a level close to zero. Between these limits, fluctuations of its rate are possible.

The ratio between the supply of and demand for loan capital by which the rate of interest is determined, itself depends on the movement of real industrial capital. It is different, for example, in the different phases of the capitalist cycle. A significant increase in the rate of interest takes place during the boom. In the crisis phase, the rate of interest also rises sharply and reaches its maximum, since demand for ready cash grows to the limit when many enterprises are threatened with a bankruptcy. The minimum rate of interest is observed during depression when, after the crisis, production stagnates.

The general historical tendency of the rate of interest is for it gradually to fall. First, there is the tendency observed for the rate of average profit, of which interest forms a part, to fall. Second, the rate of interest falls because, as capitalism develops, the supply of loan capital grows, since the amount of free capital is constantly rising. This comes about both through an increase in the number of money capitalists or rentiers, and through the development of the capitalist credit system, which concentrates the free money resources of the other strata of bourgeois society in banks and turns them into loan capital.

The Division of Profit into Loan Interest and Profit of Enterprise

The part of profit that remains at the disposal of the functioning capitalist after the payment of interest comprises *profit of enterprise*. Since the use of loans is a common phenomenon under developed capitalism, the division of profit into interest and profit of enterprise is also usual. Any profit, regardless of whether it is obtained as a result of using one's own or borrowed capital, begins to be divided into two parts.

This strengthens the impression that interest is the result not of production, but of the ownership of capital as such, while the profit of an enterprise appears as the "wages" of the capitalist.

In connection with the development of loan capital, an ever greater *separation of capital as property from capital as a function* takes place. The loan or money-lending capitalist operates exclusively as the owner of capital, and the application of capital in production, i.e. its real functioning, takes place in the hands of another capitalist. Loan capital is the most parasitic form of capital. The owners of money capital share equally with industrial capitalists in the exploitation of wage labour and in the distribution of surplus value.

In loan capital, which completes its movement according to the formula *M–M'*, the production relations of bourgeois society are misrepresented and concealed even more than in other forms of capital. In order to embellish capitalism, its apologists camouflage the exploitative nature of interest in every way and claim that it results from purely psychological factors. The English economist John Maynard Keynes, for example, argued that interest was the reward for foregoing liquidity (in other words, ready cash). In reality, loan interest, as we said above, is a special form of surplus value, created in production and appropriated by the loan capitalist.

Joint-Stock Companies and Share Capital

As the scale of production increases, capitalism comes up against the limitations of individual capitals. The size of individual capitals proves insufficient for such enormous undertakings as railways, canals, sea ports, huge mills, power stations, and so on. The problem of combining (or centralising) many individual capitals into a single large one was solved by the organisation of capitalist undertakings in the form of joint-stock companies.

Joint-stock companies, corporations first came into being in the seventeenth century and only became common in the second half of the nineteenth century. They now occupy the dominant position in the capitalist economy. In the United States, for example, the share of joint-stock companies in the gross industrial product exceeds 90 per cent.

A joint-stock company is an undertaking in which the capital not of a single capitalist but of a group of capitalists

who have bought its shares is invested. A *share* is a security certifying the investment of a certain amount of capital in a joint-stock company. The owner of a share has a right to receive part of the profits of the undertaking, in proportion to the capital invested by him or the number of shares purchased. The income paid out on shares is called a *dividend.* Everyone buying a share is formally considered a copartner of the undertaking and has the right to participate in the general meeting of shareholders, which is the highest organ of the company.

In addition to ordinary shares a joint-stock company may sometimes issue *bonds* that give the right to a fixed income in the form of interest. These are issued for a specific period of time and after its expiry are bought out by the joint-stock company. The holders of bonds are not copartners but creditors of the company.

Share Quotations

Shares are bought and sold on special security markets—stock exchanges—and also in banks. *Price* of shares, known as *quotation,* is determined at any given moment by the ratio of the rate of dividend to the rate of interest. Let us assume that an annual dividend of 10 per cent is paid out on a share with a nominal or face value of 100 dollars, while the rate of interest which the banks pay on deposits is 5 per cent per annum. The stock-exchange price of this share will be 200 dollars.

$$\text{Quotation} = \frac{\text{dividend} \times 100}{\text{rate of interest on the loan}} = \frac{10 \times 100}{5} = 200 \text{ dollars.}$$

The share price is thus directly proportional to the dividend and inversely proportional to the rate of interest on loans, and in spite of the fact that the share has a face value of 100 dollars, its price or quotation may be 200, 300, or 75 dollars, depending on the dividend being paid on it and on the rate of loan interest at the given moment.

Fluctuations of share prices are caused by changes in the ratio of supply to demand which, in turn, are determined by expected changes in the level of dividends. Strong fluc-

tuations in share prices are caused by the cyclic character of capitalist production: they rise significantly during industrial booms, and they fall sharply during crises. During the economic crisis of 1929-33, for example, shares in the United States depreciated by approximately 85 per cent or a grand total of 85,000 million dollars. Between December 1972 and December 1974, share prices quoted on the New York Stock Exchange alone fell by 587,000 million dollars.

Promoters' Profit

Promoters' profit is received by the founders or promoters of joint-stock companies, i.e. the big industrialists and bankers heading them. It is based on the difference between the dividends of the given company and the average rate of interest on loans. Since the excess of the dividend rate over the rate of interest also determines share prices, promoters' profit is quantitatively equal to the difference between the total price of the undertaking's shares at the current stock-exchange rate and the real capital invested in it.

There are different ways of drawing promoters' profit. Let us consider the most important ones. Let the capital invested in an undertaking be 100,000 dollars and the number of shares 1,000, i.e. the nominal value of one share is 100 dollars. If the dividend of the undertaking is 10 per cent and the rate of interest 5 per cent, then the stock-exchange price of a share will rise to 200 dollars. Consequently, promoters investing 100,000 dollars will be able at the expiry of the first year when a dividend of 10 per cent is paid, to sell all their shares for a sum close to 200,000 dollars. The difference of 100,000 dollars is the promoters' profit. In *Imperialism, the Highest Stage of Capitalism*, Lenin cited an actual example of a similar type. The Deutsche Bank, before releasing shares of the Siberian Commercial Bank onto the Berlin market, kept them in its portfolio for a whole year and then sold them at the rate of 193 for 100, i.e. nearly twice their nominal value, and "earned" about six million rubles of promoters' profit.[1]

[1] See V. I. Lenin, *Collected Works*, Vol. 22, p. 232.

A much more common means of obtaining promoters' profit is as follows. On the basis of an expected dividend of 10 per cent when the rate of interest is 5 per cent, the promoters immediately, when floating the company, issue shares for sale to a sum of 200,000 dollars, although the actual outlay in organising the undertaking is only 100,000 dollars. Having sold 2,000 shares at their nominal price of 100 dollars each, the promoters collect 200,000 dollars from the purchasers of shares and appropriate 100,000 of promoters' profit. The operation is known as the watering of capital.

Promoters do not necessarily sell all the shares issued, but keep some themselves in order to control the company, to have them at their disposal, and to receive dividends on them. In this case, they also appropriate enormous sums of promoters' profit while ordinary shareholders receive dividends on their shares approximately at the rate of interest.

The Controlling Block of Shares

The joint-stock form of undertaking increases the concentration and centralisation of capital and enables the big bourgeoisie to make use of the capital of the petty capitalists and even the savings of workers to raise their own profits. Daily experience shows convincingly that it is the big capitalists who run things in joint-stock companies. The fact is that although decisions are taken by majority vote at the general meeting of shareholders, each shareholder has as many votes as he has shares. A small group of major capitalists always holds a sufficient number of shares to ensure themselves a majority vote. This number is known as a *controlling block of shares*. Its holders in fact determine all decisions, elect the board of directors of the company, appoint the managing directors, decide the size of dividends, and in general determine the whole commercial and industrial policy of the company. In practice, in order to have control of the affairs of a company, it is generally not necessary to hold more than 50 per cent of its shares. Usually, small shareholders do not attend general meetings, and if shareholders owning 20 or 30 per cent of the shares between them attend the meeting, then only 10 or 15 per cent of the total shares may be needed for a controlling block.

Fictitious Capital

Shares, bonds, and other securities have no value in themselves, but are only certificates of property, giving the right to receive an income, and are therefore called *fictitious capital.* The real capital of a joint-stock company operates in production and trade, and is embodied in means of production, cash funds and commodities produced. Alongside it, however, there is fictitious capital, as the sum of the prices of all shares and bonds. Since the quotations of shares and other securities alter to a certain degree independently of the movement of real capital, fictitious capital can be several times greater than the capital functioning in production.

Share capital thus has a sort of dual existence. On the one hand, it operates as real capital in production and circulation and, on the other hand, as fictitious capital, as the total price of all the shares and bonds in which real capital finds distorted reflection. The illusory nature of fictitious capital is seen particularly clear during stock-exchange crashes, when the prices of securities collapse. Their total price falls steeply in the course of only a few days or even hours, but the nation is no poorer as a result. The nature of securities as fictitious capital is all the more evident in government bonds which are the expression of previous bourgeois governments' spending (as a rule non-productive) rather than of a real functioning capital.

The enormous increase in fictitious capital (including government bonds), and the growth of a stratum of rentiers living exclusively on income from securities, is evidence of the growing parasitism and decay of modern capitalism.

Capitalist Credit—a Form of the Movement of Loan Capital

Loan capital completes its movement through the medium of credit. *Capitalist credit* is a form of the spontaneous movement of loan capital. It exists in two main forms: (a) of commercial credit, and (b) of bank credit. *Commercial credit* comprises the basis of the credit system, since it is directly linked with the turnover of industrial capital. It is the mutual

credit extended to each other by industrialists and traders in the process of realising commodities. Since times of the production and circulation of capital are different in different sectors of production, some capitalists appear on the market as sellers before others can appear as buyers. In these circumstances the need arises to sell commodities on credit, i.e. with payment deposed for a specific period of time. If commodities were only sold for cash, the continuity of capitalist reproduction would inevitably be disrupted at a number of stages. Commercial credit, in commodity form, eliminates such difficulties and speeds up the realisation of commodities and the whole reproduction process.

Capitalists lend each other commodities as a rule on promissory notes or bills of exchange, which are based on commercial credit (see Section 5 in Chapter Three).

In spite of the wide use of commercial credit, its sphere is limited. (1) Commercial credit can only be extended within the bounds of the commodity portion of the capital of individual functioning capitalists, i.e. industrialists and traders. (2) Since commercial credit is extended in commodity form, it can only be employed between buyers and sellers in interconnected sectors of production.

The limited nature of commercial credit is overcome by the existence along with it and development of *bank credit*, which is credit extended by money capitalists and banks to functioning capitalists, in the form of money loans.

Bank credit is not limited by the size of individual capitals and can be extended in larger amounts to any capitalist for any period of time. It is the movement of loan capital as the part of industrial capital that has been released, and is inherent in the more developed stages of capitalism.

Special capitalist enterprises–*banks*–act as intermediaries between the capitalists in credit and payments. They accumulate the temporarily free money capital of functioning capitalists, the capitals of money capitalists, rentiers, the incomes and savings of the other classes of bourgeois society, the resources of pension funds, state budgets, and public organisations, and transform them into loan capital extended as credit to other capitalists.

Banks, wrote Lenin, "transform inactive money capital into active, that is, into capital yielding a profit; they collect

all kinds of money revenues and place them at the disposal of the capitalist class".[1]

Bank Operations

Bank operations are distinguished as passive (liabilities) or active (assets). *Passive operations* are those by which resources are drawn into banks. They include, above all, the formation and accumulation of the bank's own capital (sale of the bank's shares, banker's profit, and so on). The bank's own capital, however, usually comprises only a small part of the resources that it has at its disposal. The attraction of other people's resources in the form of deposits is therefore of much greater significance.

Depending on the period of withdrawal, cash deposits are divided into fixed deposits, which the depositor can only withdraw after a previously established period, and non-fixed deposits, which he can withdraw at any time in whole or in part. The second type are current account deposits.

Active operations of banks are those dealing with the allocation of the resources at their disposal. The granting of credit (advancing of loans) by banks is done in various forms. One is the *discounting of bills of exchange.* A capitalist, on selling his commodity on credit and receiving a promise to pay, often cannot wait for payment of the debt on the bill of exchange, since he needs ready cash. In such cases, the bank helps and buys the bill of exchange for cash, but deducts a certain interest for the time left until the bill falls due. The operation is known as the discounting of bills.

A common form of bank credit is that of loans on the security of commodities, valuables and securities, and on the mortgaging of land and other real estate (so-called credit on mortgage).

In addition to loans on some guarantee, banks also extend loans without security (bank credit). This is usually only advanced to very big capitalists whose credit rating is beyond doubt.

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[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works,* Vol. 22, p. 210.

Banks are involved in stock-market operations on a very broad scale, through the purchase and sale of stocks, shares and bonds, the distribution of loans, the promotion of joint-stock companies, and so on. In the period of imperialism, bank operations in government securities have become an ever increasing proportion of all dealings. The scale of such business can be judged from the fact that in the United States alone, at the present time, about half the total assets of all commercial banks are invested in government bonds.

Banker's Profit. Types of Banks

For extending a loan, the bank charges a rate of interest higher than it itself pays out to depositors. Banker's profit is formed from the difference between the interest the bank charges and that it pays out. Although this difference is not usually great, banker's profit, in relation to his own capital, is never below the average rate of profit for industry. Banker's profit is a form of surplus value. Its source, like that of all other profit, is the surplus value created as a result of the exploitation of wage labour.

By the nature of their activities, banks can be divided into three basic types: banks of issue, commercial banks, and mortgage banks.

A bank of issue is usually the central bank of a country (a state or private joint-stock bank) to which the state has given the monopoly of issuing bank notes. As a rule a bank of issue does not deal with individual entrepreneurs, but grants credit to other banks. Such a bank is a sort of bankers' bank.

Commercial banks are those concerned mainly with granting credit to industry and trade, but alongside their short-term credit operations, they are increasingly switching to granting long-term credit and financing investment connected with the construction of new enterprises and the extension of old ones. Banks take into their own hands the promotion of joint-stock companies, and the issue and distribution of shares, and appropriate vast promoters' profit.

Mortgage banks mainly extend credit on the security of immovable property or real estate (land and houses). Their activities lead to broad masses of peasants, farmers, and

small houseowners becoming ensnared in debt and ruined.

Along with the banks, which play the main role in the credit system of bourgeois society, other credit institutions also exist (savings banks, credit co-operatives, insurance companies, and so on) and participate in the mobilisation of temporarily free money resources.

The Role of Credit in Capitalist Society

Credit plays an extremely important role in capitalist society. First, it helps speed up the flow of capital from one industry to another and the averaging of various profits. Second, it promotes an increase in the production of surplus value and significantly reduces costs of circulation, since it speeds up the circulation of commodities and shortens the turnover time of capital. By substituting bills of exchange, cheques, bank notes, and clearings for gold money in its functions of a medium of circulation and means of payment, credit eliminates large non-productive expenditure connected with the currency of gold. Third, credit is a powerful means of concentrating and centralising capital, and in so doing speeds up the expropriation of small capitalists by big ones. And all this stimulates the development of capitalist production.

At the same time, credit encourages the development and sharpening of all the contradictions of capitalism. By speeding up the socialisation of production, it leads to sharpening of the basic contradiction of capitalism, that between the social character of production and the private capitalist form of appropriation. By furthering the development of production and the concentration of tens of thousands of workers in giant undertakings, credit helps intensify their exploitation and sharpening of the class contradiction between labour and capital.

By accelerating the process of capitalist production and circulation, credit promotes a more rapid onset of crises of overproduction, conceals the beginnings of crises, and increases their destructiveness.

International credit is one of the imperialist states' most powerful weapons for exploiting and enslaving developing countries.

With the help of credit, imperialists seize markets, sources of raw materials, and the spheres of the application of capital, and strive to subordinate other states both economically and politically. Thus, the development of international credit deepens the contradictions of the world capitalist system.

Chapter 8

RENT. THE DEVELOPMENT OF CAPITALISM IN AGRICULTURE

Apart from the different groups of capitalists (industrialists, traders and bankers), a special class of exploiters, big landowners, share in the distribution of surplus value under capitalism, receiving unearned incomes in the form of rent of land. In general, rent of land is a form of surplus labour and surplus product appropriated by landowners. In capitalist society, it is one of the forms of surplus value created by the labour of hired agricultural workers.

Marx's theory of rent of land, later developed by Lenin, reveals the reactionary role of big private landed property as a factor holding back development of the productive forces in agriculture, and substantiates the need for revolutionary transformation of agriculture and elimination of the parasitic class of landowners. It shows that the bourgeoisie, in company with big landed proprietors, exploits not only the working class but also the labouring peasantry which, as a result, becomes a revolutionary, anti-capitalist force. The theory of rent gives a scientific substantiation of the need for an alliance of the working class and the peasantry in the revolutionary struggle, and serves as the theoretical basis of the agrarian programmes of the Communist and Workers' parties.

1. THE EMERGENCE OF CAPITALIST RELATIONS IN AGRICULTURE. CAPITALIST RENT AND HOW IT DIFFERS FROM FEUDAL RENT

Capitalist landed property was preceded by that of feudal lords and capitalist rent by feudal rent.

Forms of the Bourgeois Agrarian Evolution

The process of liquidating feudal relations in agriculture and establishing bourgeois ones took different forms in different countries. Lenin showed that two paths were most typical in the capitalist evolution of agriculture.

The first, the so-called *Prussian or landowner* type of development, consists in the old manorial farming typical of feudalism, through limited agrarian reforms gradually being transformed into capitalist farming. Along with the development of capitalist relations in agriculture, survivals of feudalism remain for a long time, e.g. enserfment of the peasants by the landowners in the form of labour rent, share cropping and so on. This tortuous course of capitalist agrarian evolution was followed in Prussia, tsarist Russia, Japan and a number of other countries.

The second path Lenin called the *American* or *peasant* type. It is followed when there is no landed proprietorship or it has been destroyed by the bourgeois revolution. On some conditions, the land is distributed among the small peasants whose holdings then develop freely and more rapidly along the road of capitalist farming. This took place, for example, in the United States, where significant land areas seized during colonisation were granted to the European settlers for a small payment. The numerous small farms formed as a result were based at first on personal labour and were not capitalist in nature. With the development of commodity production, however, many of the small farmers were rapidly ruined and became wage workers while the upper stratum of farmers who enriched themselves began to make use of hired labour. After the bourgeois revolution of 1789-93, French agriculture followed approximately the same path of capitalist development.

The Transformation of Feudal Rent into Capitalist Rent

Feudal rent, as has already been pointed out, took three forms: labour rent, rent in kind and money rent. Money rent was characteristic of the period of the disintegration of feudalism and of the rapid development of commodity-

money relations. In that period differentiation of the peasantry proceeded more intensively. Individual groups of peasants got the opportunity to buy their freedom from the feudal lords and to become independent small commodity producers. At the same time, the bulk of the peasants began to be ruined and deprived of their implements of labour and cattle.

In many countries, this process was significantly speeded up by the so-called primitive accumulation of capital, i.e. by forced expropriation of the land worked by the peasants and of other means of production. This was the case, for example, during the period of the "enclosures" in England, at the time of the "liberation" of the serfs in Russia, and so on.

Relations between the landowners and the peasants who had bought or been "given" their freedom at first took the form of a one-sided agreement on leasing land, mainly in order to meet the needs of the peasant family. Later, groups of well-to-do peasants evolved who became tenant-farmers, i.e. they leased land from the landed proprietors, worked it using hired labour, and produced agricultural products as commodities for sale on the market. When he sold his produce, the tenant-farmer received a certain profit, part of which he had to pay to the owner for the land leased. This part of surplus value that exceeds the average profit and is paid to the landowner for use of the land is called *capitalist rent.*

The difference between feudal and capitalist rent can be summed up by the following major points.

1. Feudal rent was based on relations of non-economic compulsion and on personal dependence of the peasant on the lord of the manor. Capitalist rent is based on relations of capitalist exploitation, taking the form of "free" commodity-money relations.

2. With feudal rent, the direct producer owned instruments of labour and a plot of land. With capitalist rent, the direct producer is deprived of both land and instruments of labour. He is not only "free" personally, but is also "liberated" from the means of production.

3. Feudal rent was connected basically with a natural, subsistence economy, while capitalist rent is associated with a

commodity-money economy, producing agricultural produce mainly for the market.

4. Feudal rent reflected the relations between two classes, feudal lords and peasants, while capitalist rent reflects the relations between three classes, landowners, capitalists and hired workers.

5. Feudal rent included the whole of the surplus product, capitalist rent includes part of the surplus product or a part of surplus value exceeding the average profit.

In spite of these differences, both feudal and capitalist rents have a common basis: both represent an economic form of the realisation of landed property. In both cases, big landowners live a parasitic way of life through exploitation of the direct producers, peasants and hired agricultural workers.

Under capitalism, big landowners do not, as a rule, concern themselves directly with the organisation of agricultural production, but lease the land to capitalist tenant-farmers. Land ownership, therefore, exists separately from agricultural production. Two types of monopoly are formed in agriculture: (1) the monopoly of large private property in land and (2) the monopoly of capitalist management of the land. The two are the cause of the formation of two basic types of capitalist rent—absolute and differential.

Survivals of Feudal Relations

Having established their dominance, the bourgeoisie do not destroy feudal-serf relationships, but in many cases retain them and adapt them to their own interests. Under capitalism, therefore, various forms of feudal rent survive alongside purely capitalist rent. Describing agrarian relations in Russia on the eve of the 1905-07 revolution, Lenin wrote in his work "The Agrarian Programme of Russian Social-Democracy": "To use Marx's terminology, labour rent, rent in kind, money rent, and capitalist rent are all most fantastically interlinked in our country."[1] This intertwining of the different forms of rent is still characteristic of many countries, in particular, of the developing countries.

[1] V. I. Lenin, *Collected Works*, Vol. 6, p. 116.

The numerically predominant form of farming in the agriculture of the capitalist world even today remains small-scale commodity peasant farming with survivals of feudalism, but, since the predominant relations in agriculture too under capitalism are bourgeois relations, it is these predominant relations that Marx analysed in his theory of rent, abstracting, for the sake of clarity, from small-scale peasant production.

Rent and Rental

Rent is paid to the landowner in the form of *rental* for the land. Rental should not, however, be confused with capitalist rent. Rental, apart from rent, can also include other components, e.g. the depreciation of buildings and structures erected on the land; interest on capital previously invested in the land; part of the wages of agricultural workers; and, in certain conditions, a portion of the average profit of the tenant-farmer. When the land is leased to small farmers, the rental may include not only the whole surplus, but also part of the necessary product of the peasant tenant. Rental is the whole income of the landowner from a particular plot of land. Rent is simply payment for the right to use the land itself, or the excess of surplus value over the average profit on the capital of the tenant.

The question arises as to how this surplus is formed. Analysis of differential and absolute rent provides the answer.

2. DIFFERENTIAL RENT

We already know that industrial capitalists who introduce the latest techniques and technology, temporarily receive extra surplus value or super-profit. Differential (i.e. based on a difference) rent is similar to super-profit in character, but in agriculture, in contrast to industry, it is a constant phenomenon and is appropriated not by the capitalist, but by the landowner.

Monopoly of the Land as the Object of Farming and Specific Features of Price Formation for Agricultural Produce

In agriculture, the most important role is played by a specific means of production, land. Land differs from other means of production (machines, equipment, raw materials, etc.) in that it is not the product of labour, that its area is limited and cannot be increased at will, and that in every country, there is a certain amount of good, average and poor land. Differences in the natural fertility and location of plots of land cultivated give rise to inevitable differences in the results of production too. With an equal expenditure of capital, the yield from the richest soil will always be higher and the value of a unit of output (a bushel of grain, for example) lower than from average or poor soils.

The limited amount of land and its use by capitalist farmers result in a kind of *monopoly of the land as the object of capitalist farming*. The essence of this monopoly is that other capitalists cannot enter this sector of production unhindered by creating an unlimited number of new agricultural undertakings on rich or average land. They can only draw poor, as yet uncultivated land into production. Capitalists will only invest capital in the cultivation of such land if the prices of agricultural products make it possible for them to cover production costs and receive average profits. Since, however, identical commodities are sold all at the same price on the market, the prices of products from the poorest land also apply to products produced on average and rich land. The social price of production of agricultural products, therefore, unlike the products of the manufacturing industry, is determined not by the average conditions of production, but *by the conditions of production on the poorest land*. If agricultural products were sold at the price of production on the average land, the capital invested in poor land would not bring in an average profit to the capitalists and its cultivation would become impossible; but such a situation would lead to a shortage of agricultural produce, to an excess of demand over supply and to a rise of prices, i.e. it would become profitable to cultivate the poor land too.

In view of the fact that social demand for agricultural produce cannot be satisfied by production on the best and average land, the social price of production for these products will inevitably be determined by the conditions of production on the poorest land cultivated.

The Formation of Differential Rent and Its Sources

Differential rent is a type of extra surplus value. Like all surplus value, it is created by the labour of hired workers. Capitalist farmers renting the richest and average plots of land receive, for the same expenditure of capital, a larger income than from poor plots. So they constantly draw off superprofit equal to the difference between the social and individual prices of production. This extra profit, however, does not remain with the capitalist tenant-farmers. The owners of the rich and average land appropriate it in the form of differential rent. The cause of the formation of differential rent is monopoly of the land as the object of farming, and private ownership of the land only causes it to be transferred from the capitalist tenant-farmer to the landowner.

The impression is created that the generator of rent is not labour but the fertility of the soil and natural conditions. If no labour was applied to the soil, then, however fertile it was, it would remain barren. The sole source of rent, therefore, is surplus labour. The fertility of soil is one of the natural conditions determining the productivity of the labour of those who work it.

Two types of differential rent are distinguished: differential rent I and II.

Differential Rent I and Its Two Forms

Differential rent I is connected with differences in the natural fertility and location of plots of land in relation to the market.

First let us consider the mechanism of the formation of differential rent I according to fertility, taking a concrete

example. Let us assume that there are three plots of land, the same in size and location, but of different fertility.

Type of soil	Capital outlay [(in dollars) $(c + v)$]	Average profit (in dollars)	Output (in quintals)	Individual price of production (in dollars)		Social price of production (in dollars)		Differential rent (in dollars)
				all output	per quintal	all output	per quintal	
I	100	20	10	120	12	120	12	—
II	100	20	12	120	10	144	12	24
III	100	20	15	120	8	180	12	60

With the same expenditure of capital, the labour applied to each of these plots gives a different efficiency of production: the tenant on the first plot receives ten quintals of output, the second 12 quintals and the third 15 quintals. As a result, the individual prices of production (costs of production plus the average profit) of one quintal from the first (poorest) soil will be the highest, i.e. 12 dollars, from the second (average) soil 10 dollars, and from the third (richest) soil 8 dollars.

The market, however, does not recognise these differences and similar products of similar quality will be sold at one market price, determined by the conditions of production on the poorest soil, i.e. at 12 dollars a quintal. Under these conditions, the tenant-farmers renting rich and average land, whose individual prices of production per quintal are lower than the social price, will constantly receive super-profit of 24 and 60 dollars, respectively, and pay it to the owner of the land as differential rent I.

Thus, *differential rent I according to fertility* comprises the difference between the social price of production of agricultural products and their individual prices of production on the more fertile soil.

Differential rent I can also arise as a result of differences in the location of the land in relation to the market. Since the cultivation only of land close to the market does not satisfy the social demand for agricultural produce, the general

regulating price of production of agricultural produce includes the transportation costs of the most distant land supplying the given market. A farm situated closer to the sales outlet and selling its output at the same social price of production will receive extra profit, forming *differential rent I according to location.*

The two different bases of differential rent I–fertility and the location of the land–can operate in different directions. A farm, for example, may be fertile but distant from the market. The general rule under capitalism, however, is that the social price of production of agricultural products is determined by the individual price of production on land where, with an average level of technology and organisation of labour, the total cost of production and transportation per unit of output is maximum, on the condition that cultivation of this land is necessary to meet the demand of the market.

Differential Rent II

When studying differential rent I, we started from the position that equal amounts of capital are invested in the land differing in fertility and location. This presupposes extensive development of agriculture, when production increases through an extension of the area sown. But a growth of agricultural production is also achieved through more intensive use of land already under cultivation. Intensification is achieved by introducing new methods of working the soil, new machines, fertilisers, through irrigation, land reclamation and so on, for which additional investments of capital are necessary on the same land, investments that may have very different productivity (the same as previous investments, higher or lower). As a rule, additional investments are made on rich and average soils, since there they can provide a higher productive effect than on poor soil. And while such investments give more output than equal expenditures on the inferior soil that determine the social price of production, they will bring in extra profit, which will then be turned into differential rent II. The process by which it is formed can be illustrated by the following table:

Type of soil	Capital expenditure ($c + v$) (in dollars)	Average profit (in dollars)	Output (in quintals)	Individual price of production (in dollars)		Social price of production (in dollars)		Differential rent	
				all output	per quintal	all output	per quintal	I	II
I	100	20	10	120	12	120	12	—	—
III — first investment . .	100	20	15	120	8	180	12	60	—
III — second investment . .	100	20	20	120	6	240	12	—	120

Let us assume that 100 dollars of additional capital is invested on the third of the plots of land in our table. As a result of the additional investment of capital, we see, its fertility rises steeply. While the first investment of capital gave 15 quintals of output, the second raised the yield to 35 quintals, i.e. gave an additional 20 quintals of output. Selling these at the social price of production (12 dollars a quintal), the tenant will receive, in addition to the 60 dollars super-profit from the first investment of capital (which was the source of differential rent I), another 120 dollars from the second, additional investment.

Thus, *differential rent II*, equal to 120 dollars, arises as a result of the greater productivity of the second outlay of capital on the third (richest) land, compared with an equal capital outlay on the first (poorest) soil, which does not bring in differential rent, but determines the social price of production.

How is the super-profit received as a result of additional capital investment converted into rent, into revenue for the landowner, seeing that the capital investment was made by the capitalist tenant-farmer?

Land is leased for a specific period of time, say, for six years. During that period, the tenant investing additional capital in it will himself receive the super-profit, and not hand it over to the landowner. When the lease runs out, however, and it becomes necessary to conclude a new agreement, the owner of the land will take the whole income from

the additional capital investment into account (the efficiency of which is not yet exhausted) and raise the rental. As a result, the extra profit of the capitalist tenant-farmer will be transformed into differential rent II, income for the landowner. Capitalist tenant-farmers, therefore, strive to lengthen the life of leases, while the landowners, on the contrary, try to shorten it. The struggle over the length of leases is, in essence, a struggle between the bourgeoisie and the landed proprietors for division of the surplus value created by agricultural workers.

Critique of the "Law of Diminishing Returns"

Bourgeois economists claim that all successive outlays of labour and capital in agriculture are inevitably accompanied by a fall in their productivity, i.e. give an increasingly smaller returns than previous, equally large expenditures. This happens, in their opinion, through operation of an eternal, natural law of diminishing fertility of the soil.

To substantiate this "law" the scholastic claim was made that, if additional investments of capital were to be more efficient than initial ones, there would be no need to extend arable land and all the agriculture of the world could be accommodated on one hectare. In the relative fall in the productiveness of the soil, bourgeois economists see both the cause and origin of differential rent, the increasing shortage of agricultural produce, and the rise in its prices. Ricardo claimed that more and more was paid to nature for producing less and less. Keynes considered the "law of diminishing returns" to be the evil spirit of humanity.

The fundamental mistake of the authors and defenders of this "law" is that they ignore scientific and technical progress in agriculture. Additional investment of capital in agriculture does not in fact mean pointless repetition of the same methods of cultivating the land, but, as a rule, involves the introduction of new machines, improvements in farming techniques, the application of fertilisers, irrigation and so on. Such purposeful additional expenditure of labour and resources, actively affecting the quality of the soil, may be more productive than all previous, equally large outlays.

The theory of "diminishing returns" is refuted by capitalist

reality. In spite of rapacious exploitation of labour power and natural resources, agricultural production has considerably outpaced the growth in crop acreage and number of people employed in agriculture. In the USA, in the period from 1946 to 1967, the area sown to crops fell by 17 per cent, the number of workers in agriculture halved, and gross output rose by 50 per cent.

The ideologists of capitalism need the fantasy of the "law of diminishing returns" to justify their reactionary conclusion that there is no future in the struggle of the proletariat for the victory of socialism, because a change of social system, in their view, would not cancel the effect of this "universal law" and make it possible to ensure high living standards for all workers. Exposing the apologetic nature of the theory of "diminishing returns", Lenin wrote in his *The Agrarian Question and the "Critics of Marx"*: "It has not become more difficult to produce food; it has become more difficult for the workers to obtain it because capitalist development has inflated rent of land and the price of land, has concentrated agriculture in the hands of large and small capitalists, and, to a still larger extent, has concentrated machinery, implements, and money, without which successful production is impossible. To explain the aggravation of the workers' condition by the argument that Nature is reducing her gifts can mean only that one has become a bourgeois apologist."[1]

The reactionary nature of the "law of diminishing returns" is seen particularly clearly in the fact that it is now widely used by bourgeois ideologists together with neo-Malthusians to justify the necessity of destructive imperialist wars as a means of "restoring the balance" between the growth of population and "increasingly shrinking" opportunities for raising production of food.

3. ABSOLUTE RENT. OTHER FORMS OF RENT

When considering differential rent, we started from the position that farmers renting the poorest plots of land and

[1] V. I. Lenin, *Collected Works*, Vol. 5, p. 111.

selling their output at the price of production, received no extra profit. But landowners do not lease even the poorest of their land for nothing.

Monopoly of Private Property in Land— the Cause of Absolute Rent

Having a monopoly in landed property, big landowners allow lease-holders to apply capital to any bit of it only if they pay rent. In these circumstances, of course, the output of agricultural produce is limited and the increase in demand for food results in the market prices of agricultural products rising above the social price of production. It then becomes profitable to rent even the poorest land, because the price of its output will not only cover production costs and make it possible to obtain an average profit, but will also bring in an extra profit, which can be paid to the landowner as rent. The rent arising even on the poorest plots of cultivated land (and, consequently, on all other land regardless of its fertility and location) is called *absolute rent.* Absolute rent in capitalist agriculture was one of Marx's theoretical discoveries.

Marx disproved Ricardo's assertion that there was no rent on the poorest cultivated land. Ricardo proceeded from the assumption that, if there were rent from the poorest land, it would mean that agricultural products were constantly being sold at prices above their values, i.e. in violation of the law of value. Marx showed, on the basis of his discovery of the organic composition of capital and the difference between value and price of production, that the existence of absolute rent did not disprove the law of value.

The source of absolute rent is the excess of surplus value over average profit, formed as a consequence of the lower organic composition of capital in agriculture than in the manufacturing industry. In agriculture more living labour is used for the same amount of capital, than in industry, and a larger mass of value and surplus value is created. But capital cannot flow freely in agriculture since it comes up against the monopoly of private property in land. A condition of applying capital in agriculture is the necessity of paying absolute rent to the landowner. Agricultural products cannot,

therefore, be sold at their prices of production and must, as a rule, be sold at their values.

The process by which absolute rent is formed can be illustrated by the following table ($s' = 100$ per cent):

Organic composition of capital	Mass of surplus value (in dollars)	Value of commodities	Rate of profit (in per cent)	Distribution of surplus value	
				Average profit	Absolute rent
		Manufacturing industry			
$80c + 20v$	20	120	20	20	—
		Agriculture			
$60c + 40v$	40	140	40	20	20

In contrast to manufacturing industry, the output of agriculture is not realised at the social price of production (120), but at its value (140). The extra surplus value created here, because of the monopoly of private property in land, is not subject to intersectoral redistribution, as is the case within industry, but is appropriated by the landowners in the form of absolute rent.

The source of absolute rent is thus the excess of the value of agricultural produce above the social price of production, or of surplus value above average profit. *The reason for its existence* is the monopoly of private property in land.

In fighting against distortions of the Marxist theory of absolute rent, Lenin emphasised: "It is not true to say that according to Marx absolute rent results from the low composition of agricultural capital.... Absolute rent arises not from the low composition of agricultural capital, but from the monopoly created by the private ownership of land, which prevents competition from levelling the profits of 'low composition' capital."[1]

[1] V. I. Lenin, "The Agrarian Programme of Social-Democracy in the First Russian Revolution 1905-1907", *Collected Works*, Vol. 13, pp. 301, 302.

If the organic composition of agricultural capital were raised to the level of industrial capital, landowners would continue to receive rent for all their land, including the poorest, the only difference being that absolute rent would, in that case, become a form of monopoly rent.

Monopoly Rent

Apart from differential and absolute rent, which Marx considered to be the usual forms of capitalist rent, there is also *monopoly rent*, which arises when a monopoly price exceeding value is set on a specific type of product. There are, for example, wines of exclusive quality, made from varieties of grape grown under rare soil and climatic conditions. Since these wines are produced and marketed in strictly limited quantities, their market price rises not only above the social price of production (which is characteristic of all agricultural products), but also above their value. The resulting difference between the monopoly market price of this product and its value forms monopoly rent, appropriated by the owners of the rare land. The source of the monopoly rent is found outside agriculture. It is received by a redistribution through the price mechanism of the surplus value created in other sectors of production. Its size depends in the final analysis on the purchasing power of the buyer.

Rent in the Mining Industry

Private ownership under capitalism extends to all land. So not only landowners leasing their land for agricultural production receive rent, but also the owners of land bearing minerals. The process by which differential rent is formed in the mining industry is the same as in agriculture; the richer the deposits of ore, oil, gas, coal and so on, and the closer they are both to the surface and to the market, the lower (other conditions being equal) the individual price of production of the mined raw material. On the market, however, it is sold at the price of production determined by the

worst mining conditions. The super-profit on average and rich workings resulting from this is appropriated by the owners of the land (mineral rights) in the form of differential rent.

Absolute rent in the mining industry, as in agriculture, is the excess of value over the general price of production. The existence of this excess is explained by the fact that the organic composition of capital is lower in the mining industry, than in the manufacturing industry or in industry as a whole, as a consequence of the low level of mechanisation and the absence of expenditure on the purchase of raw materials. The owners of land with rare minerals like uranium, diamonds and so on, receive monopoly rent.

The rent from quarries, mines and oil fields prevents rational use of mineral resources and leads to a significant rise in the price of output.

Rent from Building Sites

Rent is also received by the owners of sites on which industrial enterprises, railways and houses are built. A feature of the building site rent is that no such factor as soil fertility actually operates in it, so that the location of sites acquires primary significance. For land located close to areas of large-scale use of labour, recreation areas, or main transport lines, a much higher rent is levied than for land in unfavourable areas far from roads and railways. Building site rent slows down housing construction, raises house rent and fares and, consequently, lowers the standard of living of the working people.

Rent from Small Peasant Holdings

As there are differences in the fertility and location of the land belonging to peasants, differences are also inevitable in peasants' individual expenditures of labour and resources on the production of the same products. Peasants sell some of their produce on the market at a single price so that a surplus must inevitably be formed in the price of produce from

the richest and better-situated holdings, in comparison with the poorest ones. This part of the price constitutes a differential rent appropriated by peasants working under more favourable natural and transportation conditions.

In contrast to capitalist rent, however, the rent from small peasant holdings does not appear as a separate form of surplus value, since the peasant owner of the land does not pay rental to anyone. This rent is additional profit which, as is generally the case with all returns from selling the products of labour, is obtained by the peasant. The existence of differential rent was a most important economic prerequisite for the differentiation of the peasantry and the emergence of capitalist relations.

In countries with highly developed capitalism in agriculture, and those in which foreign monopoly capital predominates, it is difficult for the small peasantry to realise and appropriate differential rent. This is explained by the fact that expenditures of labour and resources on a small peasant holding are higher as a rule than on the poorest land worked by big capitalist tenant-farmers by means of machines and hired workers. The small peasant, moreover, is compelled to sell his produce at extremely low prices to middlemen, the agents of monopolies.

Absolute rent does not exist for small peasant holdings. For the peasant, there are no such limits on the application of labour to the land as the need to obtain profit or rent. Owning a small patch of land and primitive implements of labour, he works the land in order to provide his family with at least a meagre existence.

4. THE PRICE OF LAND

Under capitalism, land is an object of purchase and sale. It has a price; but its price cannot be determined by value, since land as such is not the product of human labour and has no value. What then is the price of land and what determines its level?

In establishing the price for a plot of land, the owner starts primarily from the sum received from it as rent of land. When selling it, he endeavours to retain the previously

guaranteed income. This type of unearned income, received without any entrepreneurial activity, is loan interest. For that reason, the price of land consists of that sum of money capital which, on being deposited in a bank, will bring the owner an annual income in the form of interest equal to the rent.

Let us assume that the rent on a plot of land is 1,000 dollars and that the bank pays interest at 5 per cent per annum on deposits. In these circumstances, the price of the piece of land will be $\frac{1{,}000 \text{ dollars} \times 100}{5} = 20{,}000$ dollars. *The price of land,* consequently, *is capitalised rent.* The magnitude of the price of land is directly proportional to the amount of the rent and inversely proportional to the rate of interest on loans. The price of land fluctuates around this general level depending on the demand for and supply of land.

With the development of capitalism, the price of land has a tendency to rise. This is explained mainly by the increase in rent and also by the objective tendency for the rate of interest on loans to fall, for the reasons given in the previous chapter.

In the United States, for example, the average price of a hectare of land rose over the 60 years from 1900 to 1960 from 22.5 dollars to 330 dollars, or nearly 15-fold. In later years, the price of land rose even faster. At present, in capitalist countries, the expenditure on the purchase of land constitutes more than half of all the investment of fixed capital in agriculture. Prices of urban land are rising even more rapidly. In the six largest cities in Japan, for example, they rose by 500 per cent during the 1960s alone.

The growth of rent and land prices means that society is paying increasing tribute to the landowning class, and the main weight of this is borne by the working masses. Workers are compelled to buy agricultural products at ever higher prices and to pay increasingly high house rents, while peasants have to pay landowners continuously rising rentals for the lease of the land or a mounting price to buy it.

5. THE GENERAL LAWS AND SPECIFIC FEATURES OF THE DEVELOPMENT OF CAPITALISM IN AGRICULTURE

Concentration of Production and the Ousting of Small Producers

Karl Marx established that the economic laws of the development of capitalism are common to both industry and agriculture.

Lenin paid particular attention to theoretical analysis of the capitalist development in agriculture. Drawing on extensive data from many countries–tsarist Russia, Germany, Denmark, the United States, and others–he showed that the same economic laws operated in capitalist agriculture as in industry and, in particular, the laws of competition, and the concentration and centralisation of capital, which brought about the ousting and ruin of small-scale production by large-scale.

Large-scale capitalist production has decisive advantages over small-scale production in agriculture, too. Big farms can make better use of achievements in science and technology and obtain bigger and more stable harvests. They enjoy all the advantages of co-operation of labour in cutting costs of production. Big farms sell their output in large consignments, often without using middlemen, make extensive use of bank credit, and so on.

Having such advantages in the spheres of production and circulation, large capitalist agricultural undertakings squeeze small and medium peasant farms out in the course of competitive struggle. Concentration in agriculture is mainly reflected in a *concentration of land as the basic means of production into large farms.* This is vividly confirmed by the changes in land distribution among different groups of farm-

ers in the USA between 1950 and 1969 (according to post-war agricultural censuses, in per cent):

Groups of farmers according to the size of landed property	1950		1969	
	Number of farms	Land held	Number of farms	Land held
Under 20 hectares	36.5	3.6	23.3	1.3
20-40 hectares	19.4	6.5	16.8	3.2
40-72 hectares	20.5	12.9	19.9	7.0
72-200 hectares	17.9	23.4	26.6	20.2
200-400 hectares	3.4	10.9	7.9	13.9
Over 400 hectares	2.3	42.7	5.5	54.4
Total	100	100	100	100

It will be seen from the table that the decline in the proportion of small and medium-sized farms in the total number has been accompanied by an equally fast decline in the proportion of the land they own. Very large farms, comprising only 5.5 per cent of the total number of agricultural undertakings in the country, have concentrated more than half (54.4 per cent) of agricultural land in their hands.

At the same time, *a concentration of the most up-to-date agricultural machinery, hired labour force and marketable produce* is also taking place on large farms. On the eve of the Second World War, there were only 29,000 farms in the USA (less than 0.5 per cent) whose yearly proceeds from the sale of produce exceeded 40,000 dollars; their share in total agricultural marketable output was 8 per cent. In 1971, there were 253,000 such farms (8.8 per cent of the total number) and their proceeds amounted to 59.3 per cent of marketable output. At the same time, farms with annual proceeds of less than 10,000 dollars, comprising two-thirds of all farms, sold only 10.6 per cent of the marketable output in 1971. Similar processes are also taking place in other capitalist countries.

Through the concentration of landed property, capital

and production, small commodity producers are ruined on a broad scale. In the USA, between 1940 and 1970, the number of farms declined from 6.3 million to 2.9 million, meaning that over half the farms ceased to exist. Such farms are usually "swallowed" by their larger competitors. In 1940, the average size of a farm was 70 hectares; in 1970, it was 150 hectares.

In the Federal Republic of Germany, 779,000, or 40.1 per cent, of peasant farms ceased to exist between 1949 and 1971. In Great Britain, during the ten years from 1961 to 1971 alone, the number of farms dropped by 33.6 per cent; after the country joined the Common Market, the process became even faster. In France, there were 2,200,000 peasant farms in 1955 and in 1970 only 1,500,000. During the post-war period, ruin of the peasantry and of small farmers has also taken on a mass character in Sweden, Denmark, Italy, Japan, Canada and other capitalist countries.

Critique of Theories of the "Stability of the Small Peasant Farm" and of the "Family Farm"

The processes now taking place in capitalist agriculture convincingly confirm Lenin's critique of the "theory of the stability of the small peasant farm". This "theory" was put forward by bourgeois economists and reformists to counter Marxist-Leninist teaching on the ruin and squeezing out of small peasant production by large-scale capitalist production. Its supporters–Bernstein, David, Hertz, Bulgakov and others–claimed that the concentration and centralisation of production inherent in industry did not extend to agriculture. In their opinion, this was due, first, to the natural specific features of agriculture, which allegedly hindered the use of machinery and development of large-scale production, and second, to the "inner harmony" of the small peasant farm (the absence of the owner-worker contradiction, the industriousness and thrift of the peasant, and so on), thanks to which, according to them, it had economic advantages over large-scale capitalist production. As proof of their "theory" they usually cited average statistics on the numerical pre-

dominance and growth of small peasant farms that concealed the differentiation and ruin of the peasantry.

Lenin showed that the actual obstacles to the introduction of machinery into agricultural production did not lie in its natural peculiarities, but in the social and, in particular, agrarian relations existing under capitalism. Drawing on extensive facts, he showed that it was the big capitalist farms that were going over more and more to use of machines, and that a connected series of machines was beginning to take shape on them. This conclusion of Lenin's is confirmed particularly clearly by present-day data. Over the three decades (from 1939 to 1970), the number of farm tractors in the USA increased from 1,447,000 to 4,790,000, or by 230 per cent. Over the same period, the number of farm tractors in Great Britain increased by 540 per cent, in Italy over 16-fold, in West Germany nearly 23-fold, and in France over 34-fold. The numbers of combine harvesters and other complex machines increased just as rapidly. The latest machinery has been concentrated mainly on big and giant capitalist undertakings, which has made it possible for them to succeed in squeezing millions of small and medium peasant farms out of existence.

When small landowners are ruined, they are usually left with a meagre patch of land and a dwelling, which enables the capitalists to have a cheap labour force always at hand, ready for work of any kind. Bourgeois and reformist theoreticians consider these wage workers with allotments as "independent farmers" and so, on the basis of falsified data, try to "prove" the viability of the small peasant farm.

The proponents of the "theory of stability" grouped farms by area alone. Lenin showed that such a grouping is not sufficient, as it misrepresents the true picture of the concentration of production in agriculture, since it does not take intensification into account. It is possible for capitalist farms that are large in terms of production to operate on small areas of land. In his work "New Data on the Laws Governing the Development of Capitalism in Agriculture", Lenin wrote: "The principal trend in capitalist agriculture is the conversion of *small-scale* enterprise, *which remains small* in terms of acreage, *into large-scale* enterprise in terms of output, in the development of livestock raising, the quantity of

fertilisers, the scale on which machinery is used, and the like."[1]

As to the industriousness, thrift, and other elements of the "inner harmony" of the small peasant farm, it actually means excessive work and systematic underconsumption of the peasant and his family in order to avoid ruin, i.e. they result from the extreme economic instability of these farms.

The "theory of the stability of the small peasant farm" has since developed into a new, modern variant, the *"theory of the family farm"*. Supporters of this "theory" claim that, as a consequence of living labour being replaced by machinery, agriculture is supposedly losing its capitalist nature and that the main position in agricultural production is being occupied more and more by the profitable "family farm", with between 20 and 40 hectares of land, a tractor and a set of implements, either not using hired labour at all or employing it only occasionally for seasonal work. According to this "theory", there is no process of differentiation in the countryside but, on the contrary, a merging of the various social strata; the class struggle is dying out, and the social peace desired by the apologists of capitalism reigns. As proof of the "decapitalisation" of agriculture and the victory of the "family farm" over the capitalist farm, data are usually adduced on the absolute decline in the numbers of hired workers in agriculture.

This "theory" too, however, does not stand up to criticism. Experience shows that tractors, combine harvesters, electric motors and other machinery are used more efficiently on big capitalist farms than on medium ones. In West German agriculture, for example, in 1970, there were 1.4 million tractors; but, if all the farms in the country had 100 hectares of land, 400,000 to 450,000 would be sufficient.

Making use of the higher labour productivity and other advantages of large-scale farming, capitalist agricultural undertakings ruin medium-sized mechanised farms, including "family farms" as well as small commodity producers. It is not long since American economists included all farms with an annual marketable output of above 10,000 dollars among the thriving. They were the pride of capitalist America. The

[1] V. I. Lenin, *Collected Works*, Vol. 22, p. 69.

1964 census, however, showed that the number of farms with a cash output between 10,000 and 20,000 dollars had not only not risen, but had, on the contrary, actually fallen, and that these farms were going bankrupt. In the twenty years from 1950 to 1969, the number of farms in this group declined by more than 50 per cent, while the number of farms with a cash output of more than 20,000 dollars fell by nearly 25 per cent during this period; the majority of the latter, however, cannot be classed as family farms. Now only farms with an output of 40,000 dollars or more, i.e. capitalist farms, are considered stably prosperous and "successful".

The drop observed in the numbers of permanent agricultural workers counted in the statistics in some capitalist countries since the Second World War, has taken place as a consequence of the rapid mechanisation of labour, particularly on capitalist farms. In a number of countries, moreover, the number of seasonal ("migratory") workers, and of workers with small holdings, who are not officially counted as hired agricultural workers but are most ruthlessly exploited on capitalist farms, has risen significantly. In these conditions, the concept of the "family farm" in the writings of the apologists of this "theory" begins to be transformed into the "farm of a family", by which is understood any farm, including big capitalist undertakings, belonging to a single family. No mention is made any longer of absence or occasional use of hired labour as the definitive sign of the family farm. This "modernisation" of the theory means its actual collapse.

The apologetic content of the "theory of the stability of the small peasant farm", which is now gaining currency mainly in developing countries, consists in spreading the illusion among the masses of the peasantry that their farms can be stably prosperous within the framework of capitalism and in proving that, in the class struggle between the proletariat and the bourgeoisie, the peasantry should side with the latter.

The theory of the "family farm", while a variant of the "stability theory", at the same time has an openly anti-peasant trend. It defends the interests of the rich peasants (kulaks), and in areas of intensive farming, the interests of the capitalist farmers, and serves as an ideological screen to

the policy being carried out by imperialist states of driving the peasants *en masse* from the land.

Specific Features of Capitalist Development in Agriculture

The basic laws of the development of capitalism are common for industry and agriculture, but that does not exclude that they have certain specific features in agriculture. The most important of these features are the lagging of the development of agriculture behind that of industry, deepening of the antithesis between town and country, and the increasing exploitation of the village by the capitalist town.

Since the Second World War, there has been a radical organisational and technical reconstruction in agriculture in the economically developed capitalist countries, which has consisted basically in a steep increase in the infiltration of monopoly capital into agriculture, the winning of absolutely dominating positions in agriculture by large-scale mechanised farming, exceptionally rapid mechanisation and electrification of production processes and the application of chemicals. Even so, agriculture still lags behind industry not only in the capitalist world as a whole, but also in the developed countries. This finds concrete expression mainly in the *much lower degree of concentration in agricultural production than in industry.* Even the capitalist agricultural undertakings of the USA and Great Britain, based on wage labour, are several times smaller than the average industrial enterprises, both in terms of the numbers of workers employed and of the volume of output. In most developing countries following the capitalist road, small peasant farms or farms of the kulak type, using hired labour only for seasonal field work, still predominate.

In spite of the technical revolution in agriculture in the developed capitalist countries, farming on the whole still lags behind industry in terms of the *organic composition of capital,* too. US agriculture, for example, according to the amount of fixed capital, including machinery and equipment per worker, exceeded the level in industry by 34 per cent at the end of the 1960s, and West German agriculture by 46 per cent. But that does not signify by any means that

it had overtaken industry in terms of the technical and organic composition of capital, as some economists suggest. Because of the seasonal character of farming, the period of productive use of equipment in agriculture is several times shorter than in industry. Whereas, say, more than 4,000 hours of living labour are employed on a machine tool in industry, with two-shift working and a forty-hour week, a tractor of the same value is used 605 hours a year on average in the USA. In West Germany, where there is one tractor for every 9.7 hectares of arable land, a tractor is used only about a third as much as in the USA. As for combine harvesters, seed drills, and grain cleaners, these are employed for only tenths and hundredths of the time machinery and equipment is used in industry. Furthermore, owing to its spatial dispersion, motors, power installations and transport have much greater weight (compared with industry) in the instruments of labour in agriculture, and working machinery a correspondingly smaller one. In order to catch up with industry in terms of real technical equipment per worker and consequently in terms of the organic composition of capital, agriculture has to have much more machinery and equipment (of similar value) at its disposal, use more raw and other materials, and electricity per worker than is actually the case in the USA or FRG at the present time. Neither must the fact be ignored that in the developing countries of Asia, Africa and Latin America, and on the millions of small peasant farms in economically developed countries, agricultural production is still based mainly on manual labour. The statistics indicate that, in the whole capitalist world, out of 350 million families engaged in agriculture, at least 250 million still use a hand hoe or a primitive wooden plough—and that two centuries after the industrial revolution.

The lag of agriculture behind industry is seen, finally, in its *lower rate of growth.* This pattern, which was always observed under capitalism, still operates today. It is the case even in developed capitalist countries, where investment in agriculture has reached an unprecedented scale. Thus, between 1965 and 1972, the mean annual growth rate of agricultural output in the developed capitalist countries was 2.2 per cent, while industrial production rose each year on

average by 5.1 per cent. In developing countries, agriculture expanded at still slower rates, and sometimes even lagged behind the growth of population. According to the data of the Food and Agricultural Organisation, per capita production of foodstuffs dropped by 2.9 per cent between the mid-1960s and 1973 in Latin America, by 5.6 per cent in the Middle East, and by 13 per cent in Africa. In 1974, about 800 million of the world's people were suffering from malnutrition.

The reasons for agriculture's lag lie in the system of social relations existing under capitalism, and above all, in the fact that the monopoly of private property in land is still maintained.

A significant share of the surplus value created in agriculture and transformed into rent is used not to develop production, but for the parasitic consumption of big landowners and enrichment of the financial oligarchy. The monopoly of private property in land limits additional investment of capital in agriculture, since the results of such investment, and sometimes even the invested capital itself, become the property of the landowner once the lease has expired. The tenant is only interested in investments in the land that will bear fruit before expiry of his lease. This not only holds back the introduction of fundamental improvements in agriculture, but also prompts tenants to exploit the land in a predatory way.

Vast resources are spent on buying land, resources that, in other social conditions, might also be used to improve agricultural production.

Private property in land acts as a brake on the organisation of large-scale farming. Nationalisation of the land, i.e. its transformation into property of the bourgeois state, would put an end to the appropriation by a parasitic class of landowners of a significant part of the surplus value created in agriculture in the form of rent and would facilitate the flow of capital into agriculture. In turn, that would help speed up growth of production and a lowering of the prices of agricultural produce, a drop in the value of labour power, and a rise in the average rate of profit in society as a whole.

Nationalisation of the land does not abolish differential

rent since it is engendered not by private property in land but by the monopoly of farming it. The extra profit obtained from the rich and average land and the more productive investment of capital, however, would then be appropriated not by landed proprietors but by the bourgeois state and by the capitalists functioning in agriculture.

The question, therefore, arises as to why the bourgeoisie, having the power, do not nationalise the land, in spite of the obvious economic expediency of such a measure.

(1) The monopolistic bourgeoisie are bound up with landed property, having acquired landed estates, as a result of which their interests are interwoven with those of the landowners.

(2) The bourgeoisie does not dare to liquidate large-scale private property in land since it fears that, with growth of the revolutionary movement of the proletariat, this might shake the foundations of private property in general.

(3) The bourgeoisie frequently, particularly in developing countries, seeks support from the feudal lords in the struggle against the growing democratic movement and against the worker-peasant alliance.

The reasons why agriculture lags behind industry are not only to be found in private property in land, but also in the capitalist mode of production itself. The pursuit of profits, anarchy and competition do great harm to the rational use of natural resources, which play a much more important role in farming than in industry.

The development of capitalism in agriculture is accompanied with an absolute drop in demand for labour power and an increase in latent overpopulation. Agricultural capitalists, therefore, have the very cheapest labour power at their disposal and this delays the introduction of new machinery. Another brake on the development of agricultural production is monopoly of the land as an object of capitalist farming. If the cultivation of land does not ensure an average profit, this land will not be used by capitalist tenant-farmers. When all the land is taken, then, as Lenin pointed out, "an increase in the number of agricultural enterprises is possible only when existing enterprises are broken up; the free formation of new enterprises alongside the old is impossible. The monopoly of land ownership is a drag on

the development of agriculture, and this monopoly retards the development of capitalism in agriculture, which, therefore, is unlike industry in this respect."[1]

As for the agriculture of developing countries, the main reason for its extreme backwardness is the heavy legacy of colonial rule. The imperialist states have not given up trying to make use of the food shortages in countries that have thrown off colonial dependence, shortages for which they themselves are responsible, in order to consolidate their hold on these countries.

Agriculture's lag behind industry is closely linked with the antithesis between town and country under capitalism, the economic basis of which is the exploitation of the peasantry by industrial, commercial and banking capital, concentrated mainly in the towns.

Agricultural production has a number of specific features compared with other sectors of material production. It is dispersed over a large area and situated at varying distances from the market. Many of its products are perishable and then there is the seasonal character of the production processes, the dependence on weather conditions, and the relatively long turnover period of capital, necessitating credits to a greater extent, and so on. Capitalists make wide use of these special features to bring small farm commodity producers into economic dependence. One of the main forms of exploitation of the village by the capitalist town is *non-equivalent exchange*, the purchase of produce from the peasants at lowered prices and the sale of industrial articles to them at prices above value.

As capitalism develops, the spread of the "price scissors" widens, i.e. the prices of industrial goods rise, while the market prices of the produce of peasants (farmers) fall relatively. Thus, if we take the ratio of the indices of the prices received by US farmers for farm produce and of those they paid for manufactured goods from 1910 to 1914 as 100, the figure for 1960 was 80, and for 1972 it was 74. In other words, the farmer of 1972 could buy 26 per cent fewer manufactured goods for an equal quantity of farm produce than in the years 1910-14.

[1] V. I. Lenin, "New Data on the Laws Governing the Development of Capitalism in Agriculture", *Collected Works*, Vol. 22, p. 94.

But low market prices for agricultural products do not mean that they are cheap for the urban consumer. On the contrary, the prices of foodstuffs and other articles made from agricultural raw materials are continuously rising in retail trade. Retail food prices as a rule exceed the prices received by farmers for similar products by a wide margin. For example, while the delivery price of wheat is 55.8 dollars a ton in the USA, the retail price of wheat flour is 288.5 dollars a ton. Thus, through the price mechanism, the industrial-commercial (now monopolistic) bourgeoisie appropriates a significant share of the value created in agriculture and, by fixing high prices for manufactured goods, intensifies exploitation of the workers as consumers.

The exploitation of the peasantry by industrial and commercial capital by means of non-equivalent exchange is supplemented by their exploitation by banks and insurance companies through usury based on the extension of credit at high rates of interest. The total indebtedness of farmers in the USA increased from 12,400 million dollars in 1950 to 66,900 million dollars in 1972 and more than exceeded twice the annual value of the end-product of American agriculture.

"Those who control the banks *directly* control one-third of America's farms, and indirectly dominate the lot,"[1] Lenin wrote more than half a century ago. In 1969, about 50 per cent of the overall property (in money terms) of all farms in the USA was mortgaged. The same is observed in other capitalist countries. The indebtedness of West German peasants to the banks rose eightfold between 1950 and 1972 and reached 31,700 million marks; the indebtedness of French peasants increased 48 times over in the same period to 82,400 million francs.

The tax system of bourgeois states plays an important role in exploitation of the peasantry. At present, due to militarisation of the economy, direct and indirect taxes in the USA amount to around a third of the total income of farmers and in West Germany, to a quarter of the income from agriculture.

Exploitation, poverty, unemployment and ruin bring the

[1] Ibid., p. 100.

broad masses of the peasantry into struggle not only against the big landowners, but also against the bourgeoisie and the bourgeois state.

In defending peasants' interests, Communist and Workers' parties demand, in their agrarian programmes, the elimination of the monopoly of private property in land and transfer of the land to those who work it, abolition of the "price scissors", a lowering of taxes on peasants and of rentals, the granting of credit on favourable terms and other help for them. Complete emancipation of the peasantry, as of all working people, from exploitation is only possible through joint revolutionary struggle of workers and peasants against capitalism and through socialist revolution.

Chapter 9

THE REPRODUCTION OF SOCIAL CAPITAL AND ECONOMIC CRISES

In his theory of reproduction of social capital and economic crises, Karl Marx generalised and rounded off the whole of the foregoing analysis of the process of production and circulation under capitalism and, at the same time, solved a number of separate important problems. In his theory, the capitalist mode of production is looked at from two aspects.

(1) It is considered from the point of view of its most general laws as an economic system with a highly developed social division of labour and the predominance of large-scale machine industry. In doing so, Marx abstracted from the contradictions of capitalism and showed the ideal conditions under which the reproduction of social capital could proceed unhindered.

(2) Marx drew the true picture of the process of capitalist reproduction, exposed its deep antagonistic contradictions and conflicts, developed the theory of economic crises of overproduction and disclosed the historical transiency of capitalism.

Study of his theory of reproduction and crises has acquired special significance under contemporary conditions, when capitalism is in conflict with the growing and strengthening world socialist system.

1. SPECIAL FEATURES OF THE REPRODUCTION OF SOCIAL CAPITAL

The basis of the existence of capitalist society, as of any other society, is the production of material wealth. The goods

produced are continuously consumed and that necessitates continuity of the process of production. The process of production which is continuously renewed on the scale of society is *social reproduction.* In any society, the process of reproduction includes reproduction of the aggregate social product, labour power, and the corresponding relations of production.

Capitalists organise the production of material wealth for the sake of a continuous increase in surplus value through exploiting wage labour. This means that reproduction of the social product under capitalism is, at the same time, reproduction of capital as a social relation.

Marx considered the reproduction of individual capitals in connection with his analysis of the process of accumulation in Volume I of *Capital* and in the first two parts of Volume II.

Individual capitals, however, do not exist in isolation, independently of one another. The development of the social division of labour brings the various industries and undertakings into increasingly close contact with one another and strengthens their interdependence. With private ownership of the means of production, this complicated interconnection is achieved spontaneously through the market. "The circuits of the individual capitals intertwine," Marx pointed out, "presuppose and necessitate one another, and form, precisely in this interlacing, the movement of the total social capital."[1]

Consequently, *social capital* is the sum total of all individual capitals in their interconnections and interdependence, i.e. in their movement.

When looking at the reproduction of social capital, we have to take account not only of the value but also of the natural or physical form of the product. Without that it would be impossible to explain who will buy the output produced, where the workers and capitalists will get the consumer goods they personally need, where capitalists will get the means of production they need, and how the conditions necessary for the renewal of production in society as a whole will be created.

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[1] Karl Marx, *Capital,* Vol. II, p. 357.

Before dealing with how replacement of the product by value and in physical terms takes place, we must first explain what the aggregate social product is and what is its composition.

The Aggregate Social Product and Its Components

The aggregate or total social product is the whole mass of material goods (means of production and consumer goods) produced during a certain period, for example, a year. In value terms the social product, like an individual commodity, is divided into three parts: (1) constant capital (c), or the value of means of production consumed in society; (2) variable capital (v), or the wage fund reproduced in the product; (3) the surplus value (s) produced in the course of the year.

How, then, is social capital value reproduced? The value of the means of production (c) consumed in the course of the year and transferred to the product is the source from which they are reimbursed. The other two parts of the aggregate product ($v+s$) are value newly created during the year, or the *national income of the society*. The equivalent of variable capital (v) reproduced in the product returns to the capitalists once the goods are sold and is used again to hire labour power. Surplus value (s) is appropriated in its entirety by capitalists and is spent by them on satisfying their requirements and expanding production.

In its natural form the aggregate product is divided into means of production and consumer goods. Marx was the first to show that all social production breaks down into two major divisions, according to the purpose for which the goods produced are intended:

Department I—production of means of production;
Department II—production of articles of personal consumption.

This break-down is based on the fact that the main exchange in society takes place between these two departments.

The product of Department I is, in physical terms, machinery and equipment, materials of various kinds, fuel and electricity, *consumed productively*. The product of Department II (food, clothing, footwear, housing, luxury items and the like) can only be used for *personal, non-productive consumption.*

The clear distinction between personal and productive consumption and the division of the aggregate social product into two major departments gave Marx a chance to show *under what conditions* realisation of the aggregate social product and replacement of all its components, both in value and physical terms, take place, conditions without which the process of the reproduction of social capital would be impossible. The problem of social reproduction was thus put on a scientific basis. Lenin wrote that Marx's division of the total social product in value and physical terms made more theoretical sense than all the verbiage of bourgeois political economy on the problem of realisation.

For his analysis of the reproduction of social capital, Marx employed the scientific method of abstraction, i.e. left aside a number of factors that do not alter the general laws of capitalist reproduction, but would complicate elucidation of the essence of the matter.

He considered capitalist production in its pure form, i.e. he assumed that the whole of society consists of only two classes, capitalists and workers.

Marx abstracted foreign trade, since the laws of reproduction remain the same regardless of whether they are analysed within the limits of a single country or of several countries interconnected by the market.

Marx assumed that all commodities, including labour power as a commodity, are bought and sold at their value, meaning thereby that existing divergences of prices from values are levelled out and have no effect on the laws of motion of the aggregate social capital. He began from the assumption that the organic composition of capital and the rate of surplus value remain unchanged in the process of reproduction (although, in reality, they continually undergo changes).

Scientific abstraction enabled Marx to look at the movement of capital in its most general form, to reveal the inner

laws of the reproduction of social capital and to disclose its basic trends.

The reproduction of social capital, as of individual capitals, is either simple or extended, simple reproduction being the basis of extended reproduction. For that reason, Marx began analysis of the process of social reproduction with simple reproduction.

2. THE CONDITIONS OF REALISATION UNDER SIMPLE AND EXTENDED REPRODUCTION OF SOCIAL CAPITAL

Simple Reproduction

Simple reproduction is repetition of the process of production on the same scale as before, with surplus value used up in its entirety by the capitalists for their personal consumption. In its pure form simple reproduction is not characteristic of capitalism. Marx subjected it to thorough analysis, however, since the capitalist form of movement of the social product is revealed in it and several important conditions of reproduction in general, regardless of its social form, become clear. "As far as accumulation does take place," he wrote, "simple reproduction is always a part of it, and can therefore be studied by itself, and is an actual factor of accumulation."[1]

To analyse simple reproduction, Marx took the following scheme for the composition of the aggregate product both in value and physical terms:

$$\left.\begin{array}{lll} \text{Department I} & 4{,}000\,c + 1{,}000\,v + 1{,}000\,s = 6{,}000 \\ \text{Department II} & 2{,}000\,c + \ 500\,v + \ 500\,s = 3{,}000 \end{array}\right\} = 9{,}000.$$

From this scheme it can be seen that, in Department I, in the course of a year, 4,000 units of constant capital (in, let us assume, millions of dollars, francs, marks, etc.) and 1,000 units of variable capital are expended and, with 100 per cent degree of exploitation, 1,000 units of surplus value are created. The total annual product is thus 6,000 and consists of output for production purposes—equipment, machinery, raw materials, fuel, production buildings and so on.

[1] Karl Marx, *Capital*, Vol. II, p. 399.

In Department II, constant capital of 2,000 units and variable capital of 500 units are expended and, with the same degree of exploitation, 500 units of surplus value created. The total annual product is 3,000 and consists of articles of personal consumption–food, clothing, footwear, housing and the like. The aggregate product is 9,000.

In what way will the social product be realised and the right conditions created for the process of production to be repeated on the same scale in the following year?

Since the total product of Department I consists of means of production, part of it, equal to 4,000*c*, is realised within this division. The capitalists in Department I buy the means of production they require from each other and, in this way, replace them in both value and physical terms.

The product of Department II consists of articles of personal consumption. Part of it equal to 1,000 is realised within the division; with the 500 units received as wages (500*v*), the workers buy the means of subsistence they need from the capitalists of this division, and the capitalists obtain consumer goods and luxuries for themselves by way of exchange with each other.

In Department I, 2,000 units of means of production remain unsold, and in Department II, 2,000 units of consumer goods. The workers and capitalists of Department I buy the consumer goods they need, to the tune of 2,000 units, from the capitalists of Department II; and the capitalists of Department II, in turn, buy means of production to the same amount from the capitalists of Department I. As a result of all these acts of exchange, the components of capital are equally reimbursed in value and physical terms. But the workers, however hard they work, remain proletarians, as before, for whom sale of their own labour power is unavoidable, while the capitalists, although they did not work, retain ownership of the means of production. Realisation of the annual product, consequently, creates the necessary conditions for completing the next yearly production cycle. The capitalist class and the working class are preserved, i.e. the relations of the exploitation of wage labour by capitalists are reproduced.

Marx showed that certain conditions and a certain proportion or balance between the two departments are needed

for the aggregate social product to be realised in simple reproduction.

These conditions are the following.

(1) The sum of the variable capital and surplus value in Department I must be equal to the value of the constant capital in Department II consumed in the course of a year:

$$\text{I } (v+s) = \text{II}c, \text{ or } \text{I } (1{,}000\,v + 1{,}000\,s) = \text{II } (2{,}000\,c).$$

(2) The value of the product of Department I must be equal to the sum of the constant capital in both departments:

$$\text{I } (c+v+s) = \text{I}c + \text{II}\,c, \text{ or}$$
$$\text{I } (4{,}000\,c + 1{,}000\,v + 1{,}000\,s) = \text{I } (4{,}000\,c) + \text{II } (2{,}000\,c).$$

(3) The value of the product of Department II must be equal to the newly-created value in both departments, since, with simple reproduction, the whole of the national income is used for personal consumption:

$$\text{II } (c+v+s) = \text{I } (v+s) + \text{II } (v+s), \text{ or}$$
$$\text{II } (2{,}000\,c + 500\,v + 500\,s) = \text{I } (1{,}000\,v + 1{,}000\,s) + \text{II } (500\,v + 500\,s).$$

If any of these conditions are broken, and that is inevitable, given the anarchy of capitalist production, the result will be that some of the output remains unrealised and the whole process of reproduction is thus upset.

Extended Reproduction

Extended reproduction of social capital is characteristic of capitalism. *Extended reproduction* is renewal of the process of production on an increasing scale. In order to increase the scale of production, some surplus value must be accumulated in money form and then reconverted into additional productive capital. The reconversion of part of the aggregate surplus value into social capital is only possible if society has additional means of production, surplus workers and additional articles of consumption for the newly-hired workers.

There are always surplus workers in capitalist society in the form of the industrial reserve army created in the process

of accumulation of capital. As for the additional means of production and consumer goods, they increase every year by the amount of the surplus value created by the workers.

How does capitalist extended reproduction take place, and under what conditions?

Marx gave the following basic scheme of extended capitalist reproduction:

$$\left.\begin{array}{l}\text{Department I } 4{,}000c + 1{,}000v + 1{,}000s = 6{,}000 \\ \text{Department II } 1{,}500c + 750v + 750s = 3{,}000\end{array}\right\} = 9{,}000.$$

The organic composition of capital (c:v) in Department I is 4:1 and in Department II, 2:1.

The existence of additional means of production, i.e. of the material elements of constant capital, is of decisive significance for any extension of production. Analysis of the process of realisation must consequently start with Department I.

With the given balance between Departments I and II, the capitalists spend only half of the 1,000s in Department I or 500s, on private consumption, i.e. as revenue, while they convert the other 500s into additional capital, i.e. accumulate it. Since it is assumed that the organic composition of capital remains unchanged (4:1), 400 of the 500s accumulated will be used to obtain additional means of production and 100 on the hire of extra workers. As a result, the annual product for Department I (in value) will take the following form:

$$4{,}400c + 1{,}100v + 500s \text{ (revenue)} = 6{,}000.$$

The amount of accumulation in Department II depends on how much means of production are produced in Department I above its own requirements. In Marx's scheme, the capitalists of Department II are only able to increase their constant capital by 100 units (6,000–4,400cI–1,500sII=100). In addition, on the basis of the organic composition of capital in Department II (2:1), they will advance 50s on the hire of additional workers. The annual product of Department II will therefore be arranged as follows:

$$1{,}600c + 800v + 600s \text{ (revenue)} = 3{,}000.$$

Realisation of the aggregate product, as in simple reproduction, takes place through commodity exchange within each department and between them. So as to be able not only to renew, but also to extend production, the capitalists of Department I buy means of production from each other not for 4,000, but for 4,400 units. Their consumed constant capital is not only replaced, but grows by 400*c*. The remaining 1,600 units of means of production in Department I can only be realised by exchange with Department II.

Within Department II, 1,400 units of output are realised, the workers buy 800*v* of the consumer goods they need from the capitalists, and the capitalists exchange consumer and luxury goods worth 600s with each other. The remaining consumer goods to the value of 1,600 units are bought by the workers and capitalists of Department I from the capitalists of Department II. The capitalists of Department II buy means of production from the capitalists of Department I for the same amount. The exchange between the two departments enables the workers and capitalists of Department I to satisfy their personal requirements and the capitalists of Department II to replace the material elements of constant capital and add another 100 units of means of production to them.

The whole process of exchange between the two departments under extended reproduction can be represented like this:

$$\text{I}\quad 4{,}400\,c + \underline{1{,}100\,v + 500\,s} = 6{,}000.$$

$$\text{II}\quad 1{,}600\,c + 800\,v + 600\,s = 3{,}000.$$

The next year, production will already have taken place on an extended scale:

$$\left.\begin{array}{ll}\text{I} & 4{,}400\,c + 1{,}100\,v + 1{,}100\,s = 6{,}600\\ \text{II} & 1{,}600\,c + 800\,v + 800\,s = 3{,}200\end{array}\right\} = 9{,}800.$$

The overall sum of the year's social product will increase from 9,000 to 9,800, more surplus value will be produced, and the conditions created for a further expansion of production. Along with growth in the volume of material

production, the number of wage workers will rise and capital and the scale of the bourgeoisie's parasitic consumption will also increase. In other words, along with an extension of reproduction of the social product, the two classes–proletarians and bourgeoisie–and the production relations of the exploitation of wage labour by capital will also be reproduced on an extended scale.

It can be seen from the schemes that the aggregate product is only realised for extension of reproduction under conditions, which differ from those of simple reproduction and can be formulated as follows:

(1) The sum of the variable capital and surplus value of Department I must be greater than the amount of constant capital used up in Department II:

$$\text{I } (v+s) > \text{II } c, \text{ or I } (1{,}000\,v + 1{,}000\,s) > \text{II } 1{,}500\,c.$$

Without this, an increase in constant capital is not possible, nor consequently is expansion of production in the two departments.

(2) The whole of the product of Department I must be greater than the constant capital used up in the two departments:

$$\text{I } (c+v+s) > \text{I}c + \text{II}c, \text{ or}$$
$$\text{I } (4{,}000\,c + 1{,}000\,v + 1{,}000\,s) > \text{I } 4{,}000\,c + \text{II } 1{,}500\,c.$$

If this condition is not observed it means there will not be the additional means of production in the aggregate product needed to increase constant capital in the two departments.

(3) The newly-created value in both departments (society's national income) must be greater than the product of Department II:

$$\text{I } (v+s) + \text{II } (v+s) > \text{II } (c+v+s), \text{ or}$$
$$\text{I } (1{,}000\,v + 1{,}000\,s) + \text{II } (750\,v + 750\,s) > \text{II } (1{,}500\,c + 750\,v + 750\,s).$$

Given these conditions, it becomes possible to use some of the national income to expand production and, in particular, to increase the constant capital of society as a whole.

In reality, of course, in capitalist society, the necessary balance only asserts itself through numerous disturbances of proportions, and that inevitably leads to enormous waste of material and human resources.

3. THE NATIONAL INCOME OF CAPITALIST SOCIETY

The Marxist theory of reproduction of social capital reveals the pattern of the production and distribution of the national income under capitalism and explains its social and economic nature. *National income,* as we saw above, is part of the aggregate or gross social product and is the value newly created in the course of the year, or the yearly result of the expenditure of living labour of workers in material production.

National income has both a value and a material form.

By value, it is the aggregate expenditure of living labour, expressed in variable capital (v) and surplus value (s) or the sum total of the value newly created in all the branches of material production.

By use value, or in material terms, national income consists of consumer goods and that part of the means of production intended for extending production. In the phase of final utilisation they respectively form the consumption and accumulation funds.

In industrialised capitalist countries, most of the national income is created by the labour of wage workers; but since, in bourgeois society, in addition to capitalists and workers, there are also small commodity producers (peasants and artisans), their labour also creates a certain share of the national income.

In its movement national income passes through three stages: (1) the production stage; (2) the stage of distribution and redistribution, and (3) the stage of utilisation (see the diagram on page 286). Under capitalism, this movement takes place spontaneously, on the basis of capitalism's inherent antagonistic contradictions.

Production of National Income

National income is created only in the sphere of material production, i.e. in industry, construction and agriculture. In transport, trade and communications, national income is only created to the extent that material production continues into these spheres.

The entire employed population in capitalist society can be divided into two groups: (1) workers employed in material production, and (2) people employed in the non-productive sphere, that is to say in state administration, the army, education, the health services and so on. This breakdown is of fundamental significance both for determining of the actual size of the national income and for revealing the class character of its production and distribution. The labour of people employed in the non-productive sphere does not create national income.

National income grows under the influence of two factors: (1) an increase in the mass of labour used in the sphere of material production, and (2) a rise in the productivity of labour. The amount of labour employed rises both through the drawing of additional workers into production and through an increase in the intensity of labour and in the length of the working day. With a rise in the productivity of labour, the amount of use value in society increases and so, consequently, does the physical volume of the national income. The capitalists naturally strive to make as much use as possible of both factors, while at the same time achieving as great an increase as possible in the proportion of surplus value in the national income and a relative fall in the part of it that constitutes the product of necessary labour.

With the development of capitalism, the amount of labour employed in the non-productive sphere grows steadily, a greater and greater proportion of the able-bodied population are withdrawn from production for military service, the state machine rapidly expands, the parasitic strata of the population grow in numbers, and the number of people serving the whims and fancies of the exploiters increases. The number of people deprived of the opportunity to work—the unemployed—also mounts. At the same time, the amount of idle production capacity, i.e. unused machinery, machine tools

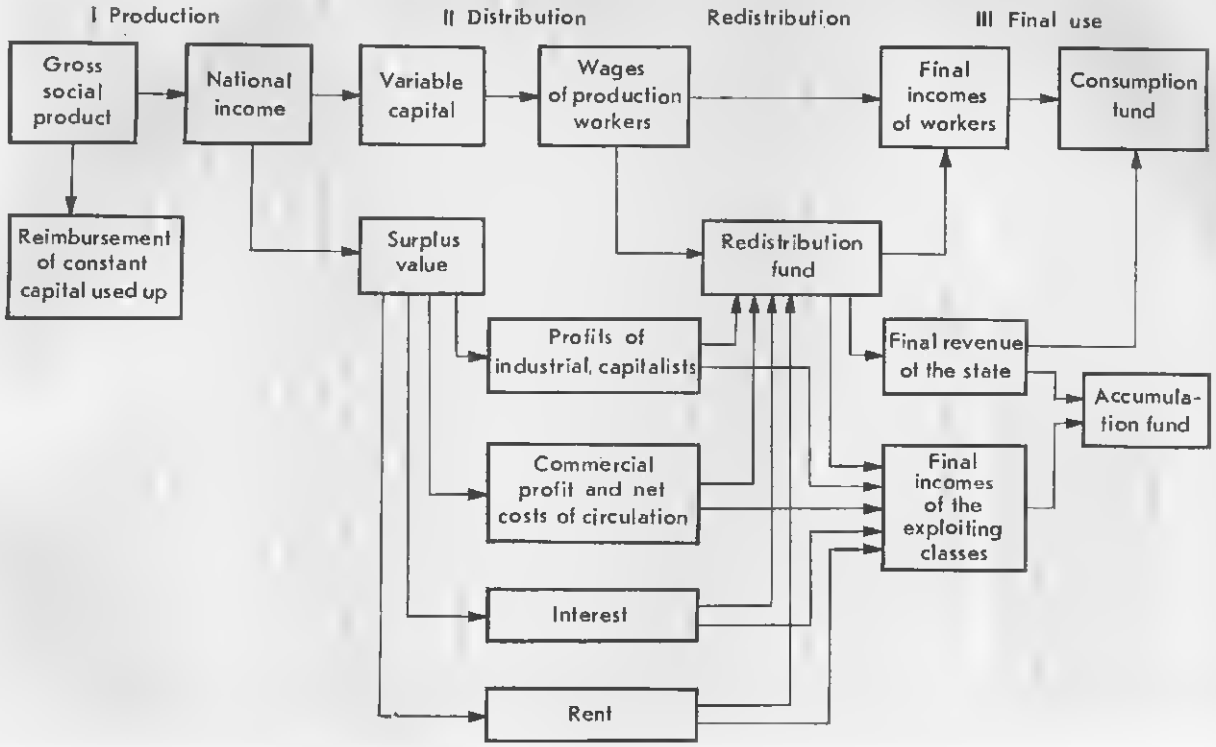
and equipment, increases. As a result, there is a slowing down of the rates of growth of the national income in capitalist countries. In the USA, for example, the mean annual rate of growth of the national income for the last 30 years of the nineteenth century was 4.7 per cent, but between 1951 and 1971 was only 3.3 per cent.

Distribution and Redistribution of the National Income

The mode of distribution is always determined by the mode of production. The distribution of the national income in capitalist society cannot take place in any other way than in the interests of the exploiting classes.

The national income of capitalist society is divided into two parts: (1) the wages of wage workers and (2) the surplus value received in various forms by the exploiters, i.e. the owners of the means of production. In addition, the exploiting classes appropriate a significant part of the national income created by the labour of small commodity producers.

The incomes of workers, in the form of wages, and the incomes of peasants, based on personal labour, are *earned incomes;* the incomes of the exploiting classes, based on exploitation of the labour of others, are *unearned incomes.* The national income created in capitalist enterprises is first distributed between the three main classes of bourgeois society, namely capitalists, landowners and wage workers. This initial distribution ensures that industrial and commercial capitalists receive average profits and landowners—rent of land. When entrepreneurs use borrowed capital, they relinquish a share of average profit to money capitalists in the form of interest on loans. At best, workers receive only the value of their labour power. Already at this stage, deep antagonistic contradictions are to be observed in capitalist distribution. In striving to obtain the largest possible profits and rents, the exploiting classes, at the same time, reduce the share of the national income going to the workers and increase exploitation of them. The diminution of the share of the national income received by the working class and the peasantry is accompanied with a sharpening of the class struggle between the exploited and the exploiters.


I Production
II Distribution
Redistribution
III Final use
Gross social product
National income
Variable capital
Wages of production workers
Final incomes of workers
Consumption fund
Reimbursement of constant capital used up
Surplus value
Redistribution fund
Profits of industrial, capitalists
Final revenue of the state
Accumulation fund
Commercial profit and net costs of circulation
Final incomes of the exploiting classes
Interest
Rent

After the initial distribution of the national income, it is redistributed, as a result of which *derived incomes* are formed. These include the incomes of those strata of society that are employed in the non-productive sphere–civil servants, doctors, teachers, servicemen, bank employees, lawyers, the clergy and the like. The main incomes named above are the source of derived incomes. The redistribution of the national income and the formation of derived incomes takes place primarily through payments for various services performed by workers in the non-productive sphere and also through the price-and-credit mechanism.

State budgets are becoming increasingly a most important lever by which the national income is redistributed. In 1913, only 6.5 per cent of the US national income was redistributed through the state budget; the figure is now more than 38 per cent.

The chief source of revenue in capitalist budgets is taxes. In the USA and in France, for example, taxes bring in 95 per cent of budget revenue, in Great Britain 97 per cent, and in Italy 94 per cent. Direct and indirect taxes on the population comprise, as a rule, about two-thirds of all budget revenues. In the 1971/72 US financial year, the total taxes paid by an American family reached 4,520 dollars, compared with 2,546 dollars in 1961/62. In 1975 alone, taxes rose by 34 per cent in Great Britain, 27 per cent in Italy and 12.5 per cent in France.

A role of some importance in the search for sources of revenue to cover increasing budget expenditures is played by state loans and the emission of money. An excessive issue of paper money into currency leads to inflation, which, as we know, is an additional way of robbing the working people.

The financial resources mobilised in the state budget are spent on military and other government orders, on supporting the parasitic organs of the bourgeois state and on paying interest on loans, etc. In the USA, in 1974, military expenditure constituted 31 per cent of the federal budget, in France 17.4 per cent, in West Germany 21.6 per cent, in Great Britain 20.1 per cent. Most of the resources spent on military needs go in one way or another to the biggest capitalist corporations. Only a small share of budget appropriations

are used for education, health services, welfare and other social needs.

The budgets of capitalist states are thus an instrument for redistributing the national income in the interests of the ruling classes to the detriment of the workers, a means of increasing exploitation of the working class and peasantry.

Use of the National Income under Capitalism

After distribution and redistribution, the national income of capitalist society is used in the final analysis for the following: (1) the personal consumption of workers in the sphere of material production; (2) the consumption of workers in the non-productive sphere; (3) the private consumption of the exploiting classes; (4) to cover non-productive military expenditure; (5) to cover net costs of circulation; (6) capitalist accumulation, i.e. expansion of production.

The share of the national income going on the private consumption of workers in the sphere of material production is steadily being reduced through operation of the general law of capitalist accumulation. At the same time, the share of income used for the consumption of workers in the non-productive sphere is getting bigger and bigger, and has already reached the level of the incomes of workers in the productive sphere.

Less than half the national income, however, is spent on the private consumption of all working people, employed either in the productive or the non-productive spheres, who comprise nine-tenths of the population of capitalist countries.

The private consumption of the exploiting classes, which acquires an increasingly parasitic and extravagant nature, comprises a fairly high percentage of the whole national income and exceeds the accumulation fund.

An ever growing share of national income is spent on the arms race, on the army, on the swelling state machine, on the growing army of the unemployed, and on advertising, stock-market speculation and other non-productive expenditure.

The tendencies in the utilisation of the national income

under capitalism, like the laws of its production and distribution, provide evidence of the ever increasing parasitism and decay of the bourgeois system.

4. THE CONTRADICTIONS OF CAPITALIST REPRODUCTION AND THE INEVITABILITY OF CRISES OF OVERPRODUCTION

Study of the schemes of simple and extended reproduction shows that the normal course of reproduction is only possible when there are certain proportions between the different parts of social production, between Departments I and II, within each department, between industries, between production and consumption, and so on. Under the conditions of the capitalist mode of production, however, these proportions are constantly disrupted. In the article "Once More on the Theory of Realisation", Lenin wrote: "The abstract theory of realisation assumes and must assume the proportional distribution of the product between the various branches of capitalist production. But, in assuming this, the theory of realisation does not, by any means, assert that in a capitalist society products are always distributed or could be distributed proportionally."[1]

There are deep antagonistic contradictions inherent in capitalist reproduction arising from the basic contradiction of capitalism, that is between the social nature of production and private capitalist appropriation. Let us take a brief look at the most important of these contradictions.

The Contradiction between Production and Consumption

Concern for satisfying the needs of the workers is alien to capital. All the designs of capitalists are directed toward ensuring extraction of the maximum profit. The impression is created that production develops independently of consumption; moreover, when there is a wide market, it can

[1] V. I. Lenin, *Collected Works*, Vol. 4, p. 77.

expand rapidly, within certain limits, as a result of an increase in demand for the means of production. But, in the final analysis, capitalist production is linked with private consumption and depends on it.

Can capitalists, in fact, receive surplus value if workers do not reproduce their labour power, i.e. do not consume? Of course not. Capitalist production is linked with the consumption of the workers not only by the conditions of the production of surplus value, but also by those of its realisation.

In order to receive surplus value, commodities must first be realised. The conditions of production and realisation, as Marx pointed out, not only do not coincide in time and place, but are also different in essence. The chief purchasers of consumer goods under capitalism are the working masses. A fall in the proportion of variable capital in the national income means, at the same time, a drop in the purchasing power of the masses and a lag in the effective demand of workers behind the expansion of production. The low purchasing power of the workers acts as a direct brake on realisation of the product of Department II, so that the capitalists of Department II prove to be in no position to purchase the means of production of Department I. Consequently, with a gap between production and consumption, the cycle of capitalist reproduction is upset.

The Contradiction between Expansion of Production and Increase of Value

In order to increase the production of surplus value, capitalists introduce new equipment and technology into their enterprises, which, as we know, raises labour productivity. Technical progress, however, leads to an increase in the organic composition of social capital and a relative fall in the share of variable capital, and gives rise to the tendency for the average rate of profit to fall. So, the production of surplus value–the "self-expansion" of capital–as the dominant aim and driving motive of capitalist production, is in insoluble conflict with the means by which this self-expansion takes place, i.e. with development of the productive forces of society.

The contradiction between the expansion of production and growth of value is also seen in the fact that a rise in the productivity of social labour reduces the value of the components of the capital already functioning in production, i.e. of buildings, installations, machinery and equipment, and leads to significant losses through the moral depreciation of this capital. The faster technical progress takes place, the more significant these losses become. This phenomenon produces extreme irregularity in the demand for means of production, causes periods of steep expansion of demand to alternate with periods of equally sharp cut-backs, introducing ever greater chaos into the process of capitalist reproduction. The contradiction between the growth of production and the "self-expansion" of capital shows that capitalist production relations are an increasing drag on growth of the productive forces, which is evidence of the historical transiency of capitalism.

The Contradiction between the Organisation of Production in Individual Enterprises and the Anarchy of Production in Society

The contradiction between social production and capitalist appropriation, Engels wrote in *Anti-Dühring*, recurs as *"an antagonism between the organisation of production in the individual workshop and the anarchy of production in society generally"*.[1]

Whereas, in individual enterprises, production is subject to the will of a single person, the capitalist, and is organised by him with a specific aim in view, in society as a whole there is an absence of any kind of planned organisation of production and, with the predominance of private ownership, there can be none. Under capitalism, anarchy of social production becomes the general form of development of the economy, and because of this, the production of individual commodities never, or hardly ever, corresponds to the social need for them.

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[1] Frederick Engels, *Anti-Dühring*, Moscow, 1969, p. 324.

Disturbance of the necessary proportions between Departments I and II of social production, and between the different industries within each department, becomes an objectively inevitable and permanent phenomenon. Under such conditions, the realisation of commodities encounters considerable difficulties and the normal cycle of reproduction is systematically upset. The disproportionality of the capitalist economy has become particularly pronounced in the present-day phase in connection with militarisation of the economy, which gives rise to one-sided development of the arms industry and allied industries.

The Contradiction between Production and Circulation

Realisation of the total social product is also complicated in capitalist society by the contradiction between production and circulation. Commodity circulation mediates the link between production and consumption. The realisation of value and the distribution of surplus value take place in circulation and in it the conditions are created for the renewal and expansion of production; but, since commercial and loan capital are separate from industrial capital, the sphere of circulation is isolated from both production and consumption and is counterposed to them as an independent branch of the capitalist economy. In periods of high market activity, when commodity prices rise, the commercial capitalists strive to buy up as many commodities as possible on credit, in order to receive the maximum possible commercial profit from the price difference. This situation creates fictitious demand for commodities, accelerates growth of production, and increases the gap between it and the real basis of the consumption of the working masses.

While effective demand is in fact already exhausted, more and more new commodities continue to flow into the sphere of circulation and stocks of unsold commodities snowball, which leads, finally, to deep disturbances of the whole process of capitalist reproduction.

The Contradiction between Proletariat and Bourgeoisie

The basic contradiction of capitalist reproduction appears in social life as an antagonism between labour and capital. As Engels put it, *"the contradiction between socialised production and capitalistic appropriation manifested itself as the antagonism of proletariat and bourgeoisie."*[1]

In pursuit of maximum profit, as we said previously, capitalists develop technology, rationalise production, raise the intensity of labour and strive to lower production costs in every possible way. All these measures are taken at the expense of the working class.

The tendency for the rate of profit to fall also prompts capitalists to expand production and to increase exploitation of the workers. The operation of the general law of capitalist accumulation and the process of concentration and centralisation of production cause a rise in unemployment, relative and absolute deterioration of the condition of the workers, and the ruin of petty commodity producers.

The exploitation of the working class in production is supplemented by robbery of the working people in the spheres of circulation and services and through the tax system. The capitalists' drive to increase exploitation is opposed by the workers' ever growing class struggle for deliverance from capitalist oppression. The irreconcilability of the basic class interests of the proletariat and the bourgeoisie exerts a great influence on the whole course of capitalist reproduction.

The sharpening of the contradictions of reproduction in their totality is evidence that the system of production relations under capitalism is in sharp conflict with the contemporary productive forces and with the social character of production, a conflict that gives rise to economic crises as a specifically capitalist way of temporarily resolving the contradictions in reproduction.

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[1] Frederick Engels, *Anti-Dühring*, p. 321.

The Inevitability of Crises of Overproduction under Capitalism

Economic crises in the form of sudden drops in the volume of production took place even before capitalism. But in the pre-capitalist formations they were sporadic and resulted from natural calamities, crop failures, epidemics, wars and the like. And they were crises of underproduction.

Under capitalism, *economic crises of overproduction* develop, when production is reduced because too many commodities have been produced. This overproduction is relative. Everything produced could be consumed, but to be consumed it must first be bought, and far more commodities are produced than the working people can buy. Production is therefore markedly curtailed. The broad masses of the people are deprived of the most essential consumer goods, while warehouses and shops are bursting with an excess of goods for which they cannot find customers.

Economic crises of overproduction have taken place periodically since 1825 and are a complex phenomenon of the bourgeois system. In order to understand them, it is necessary first to explain how and why the possibility of crises arises and the reasons why they become inevitable under capitalism.

The general *possibility of economic crises,* Marx pointed out, lies in the contradictions between commodity and money. It arose when the transition took place from the direct exchange of commodity for commodity to commodity-money circulation, to exchange through the medium of money. When money begins to operate as a medium of circulation, the process of the exchange of commodities is split into two opposing acts, sale *C–M* and purchase *M–C.* The sale of one commodity does not mean, in these circumstances, the purchase of another. The purchase may be made later and in another place; and it is in this disruption between the acts of purchase and sale that the formal possibility of crises lies. It also lies in the function of money as a means of payment, in which there is also a disruption between the acts (a) of the purchase of commodities on credit and (b) the payment for them.

With simple commodity production, however, the possibility of crises has not yet become a reality. Commodity producers sell their commodities on local markets. If difficulties arise in disposing of them, this does not upset the whole course of social reproduction. Only under capitalism, when commodity production is the general form of the production of material wealth and money has been converted into capital, are the necessary conditions created for crises not only to become possible, but also to be unavoidable.

The inevitability of economic crises of overproduction lies in the very essence of the capitalist mode of production. The antagonistic contradiction between the social character of production and the private form of appropriation, i.e. the chief contradiction of capitalism, is their main cause, but it does not operate directly to make them inevitable, but through the concrete forms in which it is manifested, which we have already examined. Of primary importance among these is the contradiction between production and consumption. The lagging of national consumption behind production possibilities is characteristic of capitalism. The steady development of the modern productive forces requires them to be subordinated to meeting the needs of the people, which cannot be done with private ownership of the means of production.

In many capitalist countries, attempts have frequently been made, with the help of the bourgeois state, to institute "planning" and "regulation" of social production, in order to iron out the contradictions of capitalism and stave off crises, but they are all inevitably doomed to failure, since they are unable to eliminate the anarchy of production or remove its basic contradiction.

5. THE PERIODIC NATURE OF ECONOMIC CRISES. THE CYCLICAL CHARACTER OF CAPITALIST REPRODUCTION

The Industrial Cycle and Its Material Basis

The development of the contradictions and disproportions inherent in capitalism results in the expansion of production coming to a halt, after a certain period of time, in growth

of production being replaced by a fall, and by the onset of a crisis. Capitalist production can only develop cyclically, i.e. by way of continuous alternations between periods of increasing production and periods of decline and stagnation. The period of time from the beginning of one economic crisis to the beginning of the next is called the *industrial cycle.*

There are four different phases in this cycle, viz. crisis, depression, recovery and boom. Let us look at all of them in more detail.

The chief phase of the cycle is the *crisis.* An economic crisis of overproduction sets in when the divergence between the growing level of production and the limited effective demand of the working people becomes acute in the extreme. It is observed mainly as a marketing crisis, when the sale of commodities at prices ensuring profit drops sharply. As a result, the stocks of commodities in warehouses grow, competition between capitalists to sell their output becomes more fierce and a rapid fall in prices sets in. Capitalists are forced to cut production or even to curtail it completely, since it ceases to be profitable.[1] The suspension of realisation and the cut in production result in businesses not paying banks and other creditors for loans previously granted and for commodities bought on credit. The pursuit of cash leads to mass withdrawal of deposits from banks and the sale of bonds and securities, the prices of which drop catastrophically. Cut-backs in commercial and bank credit take place and, at the same time, the demand for credit grows, as a result of which the rate of interest on loans rises sharply. The crisis hits the monetary and credit systems as well as trade and industry. Thus, during periods of crisis, the whole system of social production, circulation and distribution is upset.

Many enterprises, trading firms and banks, especially small and medium-sized ones, go bankrupt. During the three crisis years of 1930-32 alone, for example, there were more than 20,000 bankruptcies in Great Britain, 71,000 in Germany and more than 86,000 in the USA. During the 1974-75

[1] At the present time the biggest monopolies cut production back in advance when the market situation is unfavourable, so as to prevent a fall in prices.

crisis, more than 121,000 firms with a capitalisation of a million dollars or more went bankrupt in the ten leading capitalist countries. Masses of workers are thrown onto the street, unemployment rises disastrously, workers' earnings fall, and the living conditions of the working masses deteriorate sharply, all of which further reduces their purchasing power and increases the difficulty of disposing of stocks on hand. To avoid further price cuts, capitalists often resort to destroying goods that have already been produced. The difficult position of the working masses during crises gives capitalists the opportunity to intensify exploitation and to dictate worse conditions of work. The crisis forcibly and spontaneously adjusts production to the falling volume of effective demand and, at the level where the fall in production ceases, depression sets in.

In the period of *depression,* industrial production stagnates; it is no longer falling, but it is not growing either. The prices for commodities remain low and trade is slack. The low demand for loan capital brings about a drop in the rate of interest.

Production cannot stagnate indefinitely, however, and it gradually adjusts to the lowered prices. In order to make production profitable even at these prices, capitalists reduce cost price, i.e. expenditure of constant and variable capital per unit of output, which they achieve primarily by cutting the real wages of factory and office workers, lengthening the working day, intensifying labour, and so on. At the same time, fixed capital is renewed and new technology, techniques and organisation of production are introduced.

It is quite clear that these cuts in the costs of production are more accessible to big capital; therefore, as a result of crises, the production of commodities becomes concentrated in the hands of the big capitalists who have withstood the blows of the crisis. New capital investment stimulates a rise in demand for means of production and then for consumer goods. The gradual fall in prices comes to a halt, demand for credit grows, and the level of interest rates begins to rise.

A crisis dictates a need to renew fixed capital, which ensures a way out of the crisis and simultaneously creates the material prerequisites for the next crisis. The renewal of fixed capital is thus the material basis of the capitalist cycle.

As Karl Marx wrote: "A crisis always forms the starting-point of large new investments. Therefore, from the point of view of society as a whole, more or less, a new material basis for the next turnover cycle."[1] Beginning in the depression phase, renewal of fixed capital continues into the *phase of the recovery of production,* in which capitalist production and circulation reach the level existing before the crisis. Once the process of new capital investment extends to the majority of industries, a transition begins from the phase of recovery to the *boom phase.* The pre-crisis level of production is exceeded to some degree or other and then, with incontrovertible regularity, a new crisis sets in and the whole industrial cycle repeats itself once again.

It is impossible, in capitalist conditions, to overcome crises and the cyclical character of the development of production. The reasons for them are rooted in the irreconcilable contradictions of capitalist reproduction which, far from fading, are becoming, on the contrary, more acute. Only the specific features of the cycle, its length and the forms in which its separate phases develop alter depending on the concrete historical conditions.

Study of the history of economic crises indicates that crises occurred every ten or eleven years at first and involved the economies of individual countries, and then, beginning with the 1857 crisis, they began to repeat themselves every seven to nine years and took on the character of world crises. Since the Second World War, several fundamentally new features have arisen in the cyclical development of capitalist reproduction, which will be considered later in the chapter on the crisis of world capitalism.

Agrarian Crises and Their Features

Apart from industrial economic crises, there are also specific *agrarian crises,* affecting agricultural production under capitalism. They are caused by the same irreconcilable contradictions of capitalism, but differ from industrial crises in certain special features.

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[1] Karl Marx, *Capital,* Vol. II, p. 189.

(1) Agrarian crises do not occur as regularly as industrial ones. (2) They are more protracted in nature and last for decades. These features are a result of the specific nature of agricultural production under capitalism and, in particular, of the existence of private property in land. During crises, when purchase prices of agricultural produce fall significantly, tenant-farmers are forced to pay the same large sums in rent as before to the landowners. In the USA, for example, between 1929 and 1932 the share of rent in the price of wheat rose from 30 to 50-54 per cent. This slows down the renewal of fixed capital in agriculture extremely, makes it more difficult for farming to adapt to the lowered prices, and delays its recovery from the crisis.

The existence of masses of small peasant farms in capitalist countries also helps delay recovery from an agrarian crisis. In crisis years, when prices for agricultural products fall and profits are reduced, capitalist tenant-farmers curtail production and try to withdraw their capital; yet the peasant, in order to be able to feed his family and to pay his rent and taxes, continues to produce, even when prices are at their lowest, suffering great deprivation and working extremely hard. In agriculture, therefore, in contrast to industry, no rapid and sharp cut in production takes place that could equalise the supply of agricultural produce to the effective demand for it.

There have been three protracted agrarian crises in the history of capitalism.

The first began during the world economic crisis of 1873, and was a crisis of grain farming in a number of countries in Europe and America. The development of transport had made it possible for cheap grain from Russia, India and America to appear on the world market, which led to a sharp drop in cereal prices, as a result of which the first world agrarian crisis set in in Western Europe and lasted for more than 20 years.

At the beginning of the 1920s, world production of agricultural produce exceeded the effective demand and the capitalist world was gripped by the second world agrarian crisis. It spread first to countries like the USA, Canada, Argentina and Australia. In 1929-33, it became interwoven with the world industrial crisis and spread to nearly all countries

of the capitalist world, hitting not only grain growing, but also cattle rearing, market gardening, industrial crops and other branches of farming. Purchase prices for agricultural produce and raw materials dropped sharply. Enormous stocks of produce were burned, dumped into the sea, or destroyed in other ways, at a time when millions of people in the world were dying from hunger. The crisis threw agricultural production far back, both as regards level of development of technology and level of production. It too lasted for some 20 years and only ended during the Second World War.

Since the Second World War, a technical revolution has taken place in agriculture in the developed capitalist countries and the transition has been completed from the traditional manufacture stage to machine production. The subordination of agriculture to the domination of finance capital has vastly increased, which has led to the mass ruin of small and medium-sized farms. The substantial increase in the volume of farm produce far exceeded the public's effective demand, so that farm "surpluses" formed once more, first in the USA, and then in a whole number of other capitalist countries. In spite of various measures and programmes for state-monopoly control of farm production (the buying up of "surpluses" by the state, price support programmes, payments to limit sowing, and the like), the crisis continued during the 1950s and most of the 1960s. This led to a sharp intensification of the struggle for markets for farm produce between the USA and the countries of the Common Market, and within the Common Market, with active state intervention operating in the interests of the monopolies.

Crises and Exacerbation of the Contradictions of Capitalism

The cyclical and spasmodic character of capitalist reproduction and its periodic crises of overproduction show clearly that the bourgeoisie is not in a position to cope with contemporary productive forces and that capitalism has long since ceased to be a progressive social system. The complete failure of capitalism is seen clearly during crises in the

destruction of masses of productive forces, including labour force, and in rapacious destruction of material goods already produced and vitally needed by people.

Thus, as a result of the 1929-33 crisis, industrial production in the capitalist world fell by 44 per cent and was hurled back more than 20 years. Only 20 to 30 per cent of productive capacity in the main branches of industry was being used and, at the same time, there were more than 26 million officially registered unemployed. In the main capitalist countries alone, merchant shipping with a displacement of 6,570,000 tons was destroyed and 202 blast furnaces were dismantled. In 1933 alone, in the USA, an area of ten million hectares of cotton was ploughed under, more than five million pigs were destroyed, and millions of tons of wheat were either burned or dumped into the sea.

During the 1974-75 crisis, industrial production fell by 11.6 per cent in developed capitalist countries and unemployment more than doubled on 1973, and according to the International Labour Organisation reached 18,500,000. At the same time, prices of food and consumer goods for everyday use rose by 18.7 per cent.

Being the result of intensification of the contradictions of capitalist reproduction, economic crises only momentarily enforce the proportions necessary in the economy for realisation, thereby creating the conditions for ever greater disturbance and for aggravation of the contradictions of capitalism. Since fixed capital is renewed on a massive scale during and after a crisis, and, in the place of tens of thousands of ruined small and medium-sized undertakings, thousands of big mills and factories equipped with the newest technology appear, capitalist production acquires an even more social character. At the same time, ownership of the means of production becomes accessible to an ever diminishing number of big capitalists. Consequently, as a result of crises, the basic contradiction of capitalism, and all the forms in which it is manifested, considered above, become more acute.

In particular, the contradiction between labour and capital becomes acute in the extreme. Capitalists, with the help of the bourgeois states, try to shift all the losses from crises onto the working people: workers are sacked from their jobs and evicted from their homes; the earnings of those who remain

are reduced, labour is intensified, and tax oppression increased. Workers come to the conclusion that, under capitalism, economic struggle alone cannot deliver them from poverty, unemployment and insecurity, and begin to take the path of political struggle against the capitalist system itself. In the article "The Lessons of the Crisis" in 1901, Lenin wrote: "The crisis shows that the workers should not confine themselves to the struggle for individual concessions from the capitalists. While industry is in upswing, such concessions may be won . . . but when the crash comes, the capitalists not only withdraw the concessions they made, but take advantage of the helpless position of the workers to force wages down still lower. And so things will inevitably continue until the army of the socialist proletariat overthrows the domination of capital and private property."[1]

6. LENIN'S DEVELOPMENT OF THE MARXIST THEORY OF THE REPRODUCTION OF SOCIAL CAPITAL

After the appearance of *Capital*, Karl Marx's theory of reproduction and economic crises came under sharp attack both from the open enemies of Marxism and from revisionist theoreticians. Representatives of bourgeois, petty-bourgeois and reformist ideology, each in their own way, tried to "refute" this theory and, at the same time, after distorting its revolutionary sense, to use it as a basis for their own reactionary theories. Right at the outset of his revolutionary activity Lenin, therefore, had to devote much attention to defending the Marxist theory of reproduction and developing it further.

Analysis of Production, Taking Growth of the Organic Composition of Capital into Account

When analysing the process of extended reproduction in Volume II of *Capital*, Karl Marx, as pointed out above, ab-

[1] V. I. Lenin, *Collected Works*, Vol. 5, p. 92.

stracted from growth of the organic composition of capital. The enemies of Marxism perceived in this a contradiction between the first and second volumes of *Capital*, and attempted to prove that Marx's schemes of extended reproduction in Volume II "refuted" the conclusions Marx himself had drawn about the inevitability of the revolutionary overthrow of capitalism, in particular, in his analysis of capital accumulation in Volume I.

In the article "On the So-Called Market Question" in 1893, Lenin, continuing Marx's research, considered his schemes, taking growth of the organic composition of capital into account.

Having analysed the process of realisation of the aggregate social product over four years, Lenin showed that, with technical progress and growth of the organic composition of capital, "growth in the production of means of production as means of production is the most rapid, then comes the production of means of production as means of consumption, and the slowest rate of growth is in the production of means of consumption".[1] Thus, basing himself on the theoretical premises of *Capital*, Lenin gave a scientific formulation and quantitative justification of the *economic law of predominant, i.e. more rapid, development of the production of the means of production* over the production of consumer goods. This law operates objectively in any society that extends reproduction on the basis of technical progress. Predominant growth of the production of the means of production is the most important condition for raising the productivity of social labour.

Under capitalism, the law of priority development of the production of the means of production, like other economic laws, operates spontaneously, is subordinated to the extraction of maximum profit, and thereby deepens the antagonistic contradictions of capitalist reproduction.

When, however, the means of production become public property, society gets the chance to establish consciously the necessary balance between Departments I and II and between industries within these departments and to ensure continuous growth of production in a planned way to satisfy

[1] Ibid., Vol. 1, p. 87.

the growing requirements of all its members. Lenin's theoretical substantiation of the law of priority development of the production of the means of production was a major contribution to the Marxist theory of reproduction.

In defending and developing the theory of reproduction and economic crises, Lenin waged a battle on two fronts: against the petty-bourgeois concept of reproduction of social capital propagated in Russia by the Populists (Narodniks), and against the bourgeois falsification of Marx's theory by Russian "legal Marxists".

Lenin's Critique of Populist Views on Realisation

Following the founder of petty-bourgeois political economy, the Swiss economist Simonde de Sismondi (1773-1842), Russian liberal Populists (Vorontsov, Danielson and others) considered the aggregate social product as the sum total of the revenue of all strata of the population $(v+s)$[1] and reduced the whole problem of the market, in essence, to that of personal consumption. From this position it was concluded that it was impossible, under extended reproduction and growing capitalism, to realise the surplus value intended for accumulation, for which "third persons", i.e. peasants and artisans, were essential. And since capital accumulation was accompanied by the ruin of small commodity production, the domestic market supposedly did not grow as capitalism developed, but was constantly shrinking. The Populists also argued that, since capitalists strove to accumulate more and more, they consumed less and less, a situation which led to a fall in demand for consumer goods and which meant, in their opinion, a contraction of the domestic market.

The Populists saw a solution only in finding "third persons" on the foreign market. Russia, however, had come late onto the field and all the foreign markets had already been seized by other countries, from which they concluded that capitalism could not develop in Russia, since the domestic

[1] This argument was first put forward by Adam Smith, and Karl Marx dubbed it the "Smith dogma".

market was shrinking and there were no foreign markets left for her. This was a reactionary, utopian theory, advocating a retreat from capitalism back to small-scale cottage industries, and the possibility of passing to socialism through the peasant commune. Of all the contradictions of capitalist reproduction, the Populists saw only that between production and consumption, without understanding any of the others.

In his "A Characterisation of Economic Romanticism" (1897), *The Development of Capitalism in Russia* (1899), and other works, Lenin demonstrated the complete inconclusiveness of the views of the Populists on the problems of realisation, and showed that the development of capitalism did not contract the home market but, on the contrary, expanded it.

In ruining the mass of small producers, capitalism turns them into wage workers, who are no longer able to raise produce on their own farms, and who begin to live on their wages, spending them to buy commodities on the market.

During the differentiation of the peasantry, a group of peasant capitalists was formed who, becoming richer, not only increased demand for consumer goods (better clothing, footwear, luxury goods, etc.) but also required additional means of production, manufactured industrially, in order to expand their undertakings so as to become even richer.

Lenin further emphasised that all consumption should not be reduced to personal consumption and that, as capitalism developed, the market expanded mainly through productive consumption, i.e. capitalists' purchases from each other of the additional means of production needed to expand production. "Capitalist production," he wrote in *The Development of Capitalism in Russia*, "and, consequently, the home market, grow not so much on account of articles of consumption as on account of means of production."[1]

The development of capitalism is accompanied by an unprecedented increase in the social division of labour, so that some branches of production become markets for other branches, which does not mean contraction of the market, but an enormous expansion.

Realisation of the aggregate social product, including the

[1] V. I. Lenin, *Collected Works*, Vol. 3, p. 54.

surplus product, is thus fully possible even under pure capitalism.

As for foreign markets, capital strove to conquer them not because there was nowhere to realise surplus value, but in order to extend the possibilities of increasing its production. The question of the foreign market, Lenin pointed out, had nothing to do with that of realisation. The grabbing and utilisation of foreign markets did not solve the contradictions of capitalist reproduction, but made them more complex.

Lenin's Critique of "Legal Marxist" Distortions of the Marxist Theory of Reproduction

Being apologists of the bourgeois system, the Russian "legal Marxists" (Tugan-Baranovsky, Struve, and others) argued that realisation of the aggregate social product could take place under capitalism without contradictions and crises, and that capitalist production could develop harmoniously, regardless of personal consumption, on the basis of expanded production of means of production alone. They denied that there was an antagonistic contradiction between production and consumption under capitalism, and endeavoured to prove that the capitalist mode of production could ensure a stable balance between Departments I and II. The imbalance observed during crises, they saw as a temporary and accidental phenomenon.

In several articles ("A Note on the Question of the Market Theory", "Once More on the Theory of Realisation" and "Reply to Mr. P. Nezhdanov"), Lenin showed that the objective necessity of the proportions given in Marx's abstract theory of realisation still did not signify that harmonious development of capitalist production was possible in practice. On the contrary, because of the irreconcilable contradictions inherent in capitalism, in reality these proportions were constantly upset, so balance was only temporary and relative in the capitalist economy, while imbalance was permanent and absolute. The growing imbalance and, in particular, the lag in the growth of people's consumption behind expansion of production led irrevocably to periodic crises of overproduction.

Production under capitalism, stimulated by pursuit of profit, grows at a rate impossibly fast for pre-capitalist formations, and competition gives it a tendency to expand without limit. The volume of personal consumption, if it grows at all, does so only very weakly (the proletarian condition of the popular masses does not give any possibility of rapid growth of personal consumption), so that capitalist production periodically comes up against the limited effective demand of the population. While the goal of production remains profit and the law of its development remains capitalist competition, crises cannot be eliminated.

Lenin showed that the market cannot expand infinitely under capitalism through the manufacture of the means of production alone, quite independently of the production of consumer goods and unlinked to it in any way. "It would be a mistake," he wrote, "to understand this 'independence' as meaning that productive consumption is entirely divorced from personal consumption: the former can and must increase faster than the latter (and there its 'independence' ends), but it goes without saying that, in the last analysis, productive consumption is always bound up with personal consumption."[1]

Exposing the apologetic meaning of the "theory" of realisation of the "legal Marxists", Lenin showed that the antagonistic contradictions of capitalist reproduction are closely interconnected and are a manifestation of the ever deepening conflict between the social character of production and capitalist private property. It is only possible to eliminate them, and consequently to ensure the development of social production without crises, in a socialist society.

[1] V. I. Lenin, "The Development of Capitalism in Russia", *Collected Works*, Vol. 3, pp. 54-55.

Imperialism—
Monopoly Capitalism, the Highest Stage of Capitalism

A. THE LAWS OF DEVELOPMENT OF MONOPOLY CAPITALISM

The founders of Marxism analysed all aspects of the capitalist mode of production in both its origin and its development. The capitalism they studied was the capitalism of the era of free competition. At the turn of the century, however, fundamental changes took place in its economics and politics. The practical revolutionary struggle of the proletariat urgently required these changes to be studied from the position of Marxism. This historical task was fulfilled by that brilliant continuer of the work of Marx and Engels, V. I. Lenin. Employing the Marxist dialectical method, Lenin gave an exhaustive analysis of the new phenomena in the development of capitalism and, on its basis, created the scientific theory of imperialism and developed the Marxist theory of socialist revolution. He showed that, from the economic point of view, imperialism had the following five characteristic features: (1) the concentration of production and capital developed to such a high stage that it had given rise to monopolies that played a decisive role in economic life; (2) the merging of monopolistic bank capital and monopolistic industrial capital, and the rise of finance capital and a financial oligarchy; (3) the export of capital as distinguished from the export of commodities had acquired paramount importance; (4) the formation of international monopolistic associations which divide the world among themselves; and (5) the completion of the territorial division of the world among the biggest capitalist powers.[1]

[1] See V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 266.

All these features are only different forms of the basic characteristic of imperialism—the domination of monopolies. Therefore, imperialism is *monopoly capitalism.*

Lenin disclosed the political essence of imperialism, showing that, while bourgeois democracy was politically inherent in free competition capitalism, the domination of monopolies in the economy could not avoid leading to monopoly in politics, and to reaction and violence in all spheres of social life. "Politically," he wrote, "imperialism is, in general, a striving towards violence and reaction."[1]

Lenin was the first to give a scientific definition of the historical place of imperialism. He showed that it was not a new social and economic formation, but only a stage in the development of the capitalist mode of production. In comparison with pre-monopoly capitalism, imperialism is the highest stage of capitalism. At the same time, it is the last stage in the development of capitalism, the eve of the socialist revolution.

In defining imperialism as a special stage of capitalism, Lenin noted three distinctive features in it: imperialism is monopolistic, decaying or parasitic, and moribund capitalism. Under its conditions, a gigantic socialisation of production takes place and so all the necessary material requisites for socialist revolution are prepared. This process is further strengthened by state-monopoly capitalism, which necessarily arises from the domination of monopolies.

The development of imperialism and the emergence of state-monopoly capitalism enormously sharpen all the antagonistic contradictions of capitalism that existed before, and give rise to a series of new irreconcilable contradictions. Lenin showed that, on the whole, the entire system of world capitalism was ripe for a socialist revolution but, because of the law of the uneven economic and political development of capitalism in the epoch of imperialism, victory of the socialist revolution in all countries simultaneously was impossible.

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[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 268.

In creatively developing Marxism, Lenin was the first in science to reach the conclusion that victory of the socialist revolution first in a few countries or even in one, was both possible and inevitable. "Having disclosed the law of the uneven economic and political development of capitalism at its imperialist stage," the Central Committee of the CPSU stated in connection with the centenary of his birth, "Lenin arrived at the conclusion that different countries would come to socialism at different times and that the imperialist front may be breached not necessarily in the country with the highest level of development."[1]

Lenin showed that the collapse of capitalism would occur as a result of revolutionary breach of the world capitalist system in its weakest links and the defection from it of more and more countries, and so built a new theory of proletarian revolution from analysis of imperialism. This was a major contribution to Marxist theory, an invaluable new ideological weapon for the working class in its revolutionary struggle against capitalism.

Many economists had attempted to analyse new phenomena in the development of capitalism at the beginning of the 20th century, but none was able to give a thorough scientific explanation of the essence of the new stage. Only Lenin succeeded in doing so, by consistently applying the genuinely scientific, Marxist method.

As he noted, there were two trends in the bourgeois literature of the time devoted to problems of imperialism. One trend, represented by Schulze-Gävernitz, Liefmann, Riesser and others, openly glorified imperialism (particularly that of their own countries), concealing the deep antagonistic contradictions inherent in it. The other trend was represented by Hobson, Agahd, Lansburgh and others, who adopted a critical approach to imperialism, but criticised it from a social-liberal, petty-bourgeois position. In defending the interests of the bourgeoisie, these writers simply called for a return to free competition and for monopoly capitalism to be cleansed of its "negative" aspects. Lenin subjected both

[1] *On the Centenary of the Birth of V. I. Lenin. Theses of the Central Committee, Communist Party of the Soviet Union*, Moscow, 1970, pp. 13-14.

views to penetrating criticism, showing them to be scientifically unconvincing and politically reactionary.

Lenin paid particular attention to criticising opportunist theories, and ruthlessly exposed not only the open apologists of imperialism, like Bernstein, David and Cunow, but also its hypocritical "critics" (like Karl Kautsky and kindred spirits). The latter feigned, on the surface, to be opponents of imperialism and even called for struggle against it, but in reality they distorted the true nature of imperialism and defended capitalism.

Lenin's teaching on imperialism, thus, organically unites thorough scientific research into the complex processes of monopoly capitalism with sharp criticism of bourgeois and opportunist "theories" of imperialism. He wrote his major work on the subject, *Imperialism, the Highest Stage of Capitalism*, in 1916, but it was only published after the overthrow of tsarism in 1917. The book was originally written for publication under conditions of tsarist censorship. The political conclusions and problems of the revolutionary struggle were, therefore, set out in it, in Lenin's own words, with "extreme carefulness", in a veiled parable form and Aesopian language. The ideas of the book are also developed in other works of Lenin's, like "Socialism and War", "Imperialism and the Split in Socialism", "On the Slogan for a United States of Europe", and "The Military Programme of the Proletarian Revolution".

Lenin's doctrine of imperialism and the socialist revolution was a milestone in the development of Marxist thought. As the Central Committee of the CPSU emphasised in connection with the centenary of his birth: "Lenin's analysis of imperialism in *Imperialism, the Highest Stage of Capitalism* and in other works is direct continuation and further development of the ideas of Marx's *Capital*."[1]

Lenin's brilliant discoveries gave perspective to the development of the revolutionary struggle of the working class and were a call to decisive revolutionary action. They armed the proletariat with concrete methods of achieving their great goal of overthrowing capitalism and building communist society.

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[1] *On the Centenary of the Birth of V. I. Lenin*, p. 13.

The Great October Socialist Revolution, the socialist revolutions in other countries, and the development of the world revolutionary process are a triumph of his teaching.

Lenin's theory of imperialism has been further developed in the Programme of the CPSU, in the documents of the CPSU and other fraternal parties, and in documents of International Meetings of Communist and Workers' Parties.

Chapter 10

CONCENTRATION OF PRODUCTION AND MONOPOLIES. FINANCE CAPITAL AND THE FINANCIAL OLIGARCHY

1. THE ORIGIN, NATURE AND FORMS OF MONOPOLY

Concentration of Production and the Rise of Industrial Monopolies

Free enterprise capitalism reached its apex in the 1860s and 1870s. At the end of the nineteenth century and beginning of the twentieth, the transition from pre-monopoly capitalism to monopoly capitalism was completed. The development of free enterprise capitalism into imperialism was prepared by the whole course of development of the productive forces and production relations of capitalism.

A characteristic of the capitalist economy before imperialism was the predominance of free competition. Competition between capitalists led inevitably to the concentration and centralisation of capital and the consolidation of production. An ever increasing part of productive capacity, labour power and output became concentrated in big and very big undertakings, the victors in competitive struggle.

The process of concentration of production was speeded up significantly, during the second half of the nineteenth and early twentieth century, by major scientific and technical discoveries and inventions.

The discovery and practical application of new methods of making steel (the Bessemer, Thomas and open-hearth processes) led to the development of huge steel works. The invention of new types of metal-working machine tools (capstan lathes, milling machines, etc.), and the use of hard alloys promoted development of the engineering industries. New types of prime-mover were invented (the steam turbine, the internal combustion engine and the Diesel engine). On the basis of these, motor vehicles, aeroplanes, etc. were designed. An enormous force, revolutionising production, was the industrial application of electricity.

The biggest advances in production techniques gave rise to structural changes in industry. Whereas earlier light industries, notably the textile industry, with their relatively low organic composition of capital, predominated in capitalist production, from the 1870s onwards the leading position began to be taken by heavy industry.

The technical and structural shifts in capitalist industry led to changes in the scale of capitalist enterprises. The new productive forces necessitated large-scale production. The minimum amount of capital necessary for profitable investment in production on the basis of the new technology rose to a considerable degree. The introduction of new means of production called for larger amounts of capital than even the biggest capitalists had at their disposal. In order to be successful, they had to use other people's capital on credit. The joint-stock form of company began to develop rapidly.

The operation of the law of concentration of production led to a small number of big and very big undertakings coming to occupy a dominant position in every developed capitalist country.

As enterprises became larger, competition became fiercer and more complex. The enormous costs involved in competition between major capitalists, the loss of profit, the risk of utter ruin and the sharpening of the problem of marketing commodities in such conditions pushed the big capitalists into agreements and alliances. At the same time, concentration of production and capital made such agreements easier since, as Lenin said, "a score or so of giant enterprises can easily arrive at an agreement",[1] particularly when such deals enable them to obtain monopoly super-profit. This transformation of competition into its opposite, monopoly, under conditions of high concentration of capitalist production, took place inevitably, being the internal dialectic of its development. Lenin showed the historical process of the development of capitalism, namely, predominance of free competition leading inevitably to concentration of production and this, at a certain stage of development, giving rise to monopoly.

Monopolies first arose in heavy industry, where large-

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 197.

scale production won its initial victories. As the concentration of production increased, monopolies were also formed in the most important branches of light industry.

The Essence and Forms of Monopoly

Contemporary *capitalist monopoly* in the sphere of production involves very large enterprises or combines of enterprises concentrating a significant part of one or more types of output in their hands and, thanks to that, being able to set monopoly prices and receive monopoly high profits.

Monopolies achieve their main aim—high monopoly profits—by various methods, the most important of which is the setting of monopoly prices. This means that they sell their own output at monopoly high prices, but buy raw materials and other elements of production, as a rule, at monopoly-imposed low prices, and on this basis, they extract monopolistically high profits.

The forms of monopoly associations are extremely varied. The most developed forms of monopoly are cartels, syndicates, trusts and groups.

A *cartel* is a monopolistic alliance of capitalists in which its members retain their production and commercial independence. At the same time, capitalists, on forming a cartel, agree on monopoly prices for their commodities, divide the market between themselves, determine quotas (shares) of production and sales for each member, establish conditions for the hire of labour power, exchange patents on new inventions and processes, and so on.

A *syndicate* is a monopolistic union, the members of which retain production independence but give up commercial independence. Sale of the commodities produced in the syndicate's enterprises takes place at monopoly prices through a special syndicate office that concentrates all orders in its own hands and distributes them according to established production quotas. Syndicates also often purchase raw materials for their members at, as a rule, low monopoly-imposed prices.

A *trust* is a form of monopoly in which the enterprises belonging to it give up both production and commercial in-

dependence. The capitalists joining a trust cease to be the owners of their enterprises and become shareholders. Trusts, as a rule, are joint-stock companies (corporations).

A *group* is a more complex form of monopolistic combine. Its distinctive feature is that it is based on what is known as the holding system. The enterprises of the group are usually considered to be independent firms, but in practice they are subordinate to a head holding company, which has a controlling interest in the group's enterprises.

Today syndicates and single industry trusts are seldom met in their pure form, and cartels include not only individual enterprises, as used to be the case, but major corporations. The most typical and predominant form of monopoly has become the multi-industry concern or group.

Let us consider some examples of the domination of contemporary monopolies in imperialist countries.

In 43 branches of US industry, the four largest monopoly associations in each industry concentrate 75 per cent or more of output and in 102 industries, between 50 and 74 per cent. At the end of the nineteenth century, there were 1,600 companies in the US automobile industry; now fewer than ten remain. The "Big Three" (General Motors, Ford and Chrysler) had concentrated 42 per cent of all automobile production in the country in their hands in 1909 and 97.8 per cent in 1973.

The oil industry of the USA is dominated by four monopolies: Standard Oil of New Jersey, Mobil Oil, Texaco and Gulf Oil. Their share in the turnover of the American oil industry at present is 55 per cent. Fifty giant monopolies produce more than a third of the whole output of the US manufacturing and extractive industries, which include about 500,000 different enterprises in all.

The largest US monopolies not only occupy the dominant position in the US economy, but also dominate the whole world capitalist system. Of the 164 largest monopolies in the capitalist world, 96 are American.

Japan's economy is distinguished by a high degree of monopolisation. In each branch of industry, the five largest monopolies alone produce 97 per cent of computers, 98 per cent of motorcars, 90 per cent of copper, 73 per cent of ships, 86 per cent of pig iron, 84 per cent of locomotives, 82

per cent of electricity, 71 per cent of steel, and so on. The biggest industrial monopolies are Mitsubishi (engineering), Hitachi (electrical equipment), Yawata Seitetsu (iron and steel), Tokyo Shibaura Denki (electrical engineering), Nissan (motorcars).

More than half a century ago, Lenin remarked on the extremely high degree of the monopolisation of German industry.

At present about 200 of the major West German monopolies concentrate 85 per cent of all share capital. The nine biggest concerns (Thyssen, Krupp, Mannesman, Hoesch, Haniel, and others) produce 94 per cent of the steel in the Federal Republic of Germany. As before the war, the coal and steel concerns of the Ruhr still form the core of monopoly capital in West Germany. A dominant position in the West German chemical industry is occupied by the group of successors to I. G. Farbenindustrie, each of which surpasses the whole of the pre-war concern, in terms both of scale of share capital and of volume of production. Together they produce more than half of the chemical output of West Germany. The key positions in electric power engineering are held by two concerns, Siemens and AEG-Telefunken. In the motor industry, the "big three", Volkswagenwerk, Daimler-Benz and A. Opel, dominate producing about 90 per cent of all passenger motor vehicles.

In the 60-odd years since the publication of Lenin's *Imperialism, the Highest Stage of Capitalism*, significant changes have taken place in the forms of monopolies and the way in which they dominate. The sphere of their dominion has considerably expanded. Whereas, at the beginning of the century, monopolies mainly exercised control in heavy industry, at present they are dominant in all spheres of the economy, heavy and light industries, transportation, construction, trade and communications; and monopoly capital is increasingly penetrating into agriculture.

At the start of the century, Lenin noted that combined undertakings, huge because they included different branches of production, were mainly to be found in heavy industry. They are now typical of all branches of production.

Alongside combination there has developed *diversification* of production. The essence of this is that enterprises of an

increasingly wide range of branches of industry, transport and commerce, not technologically interconnected, have been brought together within monopolistic unions.

The transformation of the biggest companies into multi-branch complexes is an inherent feature of contemporary monopoly capitalism, in contrast to imperialism at the beginning of the twentieth century. Cartel agreements, once the forerunners of trusts and concerns, are now beginning to be revived on a new basis. Such agreements are now made increasingly frequently between trusts and concerns. The modern cartel is essentially a new type of monopoly, since its participants are themselves large monopolies. Monopolies frequently dictate prices without even cartel agreements, by means of so-called price leadership, in which the biggest monopoly sets the price and the others follow suit.

New forms of monopoly becoming increasingly common are agreements between leading corporations on the joint construction of huge enterprises and expensive installations, and on scientific research and the like.

2. MONOPOLY AND COMPETITION

The Relationship between Monopoly and Competition during Imperialism

Monopolies, which grew out of free competition, are its absolute opposite. The domination of monopolies, however, does not lead to the disappearance of competition altogether, but simply limits its freedom. Like the previous stage in the development of capitalism, imperialism is based on private capitalist ownership of the means of production, so that the retention of competition is objectively inevitable.

Imperialism does not and cannot reconstruct capitalist society from the foundations upward. Monopolies dominate the economy and hold key positions, but do not organisationally direct all its links. Outsiders (not belonging to the monopolies) predominate in terms of numbers in almost every branch of production, this being the substratum of the old capitalism from which monopoly capital rises.

In the economies of imperialist countries there are also

industries in which competition has not yet resulted in a high concentration of production. Monopoly capital from other industries does not rush into these, owing to the unlikelihood of obtaining significant super-profit. This applies to those branches of production in which there are strong fluctuations of demand or where the production process is connected with a considerable risk, and so on. Non-monopoly capitalists count on their good knowledge of, and proximity to, the local market, their old and loyal customs, distinctive quality of their wares, use technical innovations with low capital intensity, and the like.

It must also be kept in mind that it is not always in the interests of monopolies to destroy small and medium-sized businesses. Scientific and technical progress has made it possible for the process of production to be broken down into numerous relatively isolated elements. The monopolies, therefore, shift a number of subsidiary processes to subordinate, though formally independent, small and medium-sized enterprises and avoid expending their own capital. Under favourable market conditions, they actively extend their influence and control over an ever greater number of formally independent small and medium companies, giving them orders to fulfil. When the economic climate deteriorates, however, they leave these firms to their fate, condemning them to mass ruin.

The existence of a vast number of unmonopolised capitalist enterprises thus creates the competitive situation within which monopoly capital operates. In addition the monopolies themselves are in fierce competition with one another for the biggest mass and rate of profit.

The Character and Forms of Competition under Imperialism

The domination of monopolies results in fundamental changes in the character, forms and methods of competition, which becomes more complex and extremely sharp, increasing in scale and destructiveness.

Lenin noted that competition now meant unprecedentedly brutal suppression of enterprise, energy, and bold initiative and the substitution of "financial fraud, nepotism, servility

on the upper rungs of the social ladder" for competition.[1] Secret agreements of a few giants against the rest become the order of the day instead of open competition.

Imperialism also engenders new forms of competitive struggle, including competition between monopolies and outsiders, between the monopolies themselves, and within monopolies.

Lenin mentioned a number of new methods by which monopolies stifled outsiders: stopping supplies of raw materials or of labour by means of "alliances" (i.e. of agreements between the monopolists and corrupt leaders of trade unions); closing trade outlets; agreements with customers to deal only with the monopoly; charging monopoly prices, stopping credits and declaring a boycott.[2] The new methods the monopolies use against outsiders also include the buying up of the land on which competitors' enterprises stand, bribery of influential persons and the exerting of pressure on competitors through government bodies. Advertising also plays a major role in competition in the era of imperialism. The press, radio and television, being in the hands of monopolies, are not only employed to advertise their products, but are also used to boycott the products of competitors. Another means of primary significance in competition is the buying up by the monopolies of patents on new equipment, thereby depriving their competitors of the chance to use the achievements of technical progress. Monopolies set up their own research and development laboratories, design offices, and so on.

In the struggle against outsiders, monopolies also employ well-tried old methods. The common means of competition is to reduce retail prices in order to gain control of the market. In order to "corner" the market from outsiders, monopolies may temporarily fix a price not only below value, but even below cost price. They are in a position to do this because they have the most advanced equipment and the reserves of capital to cover temporary losses. Outsiders cannot stand up to such competition and go bankrupt. Once the

[1] V. I. Lenin, "How to Organise Competition?", *Collected Works*, Vol. 26, p. 404.

[2] See V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 206.

market has been "cornered", the monopolies soon screw prices up to a monopoly high level.

It is characteristic that monopolies rarely go as far as open price war in their competition with each other, since they would be risking big losses. Price competition is usually practised against weak competitors.

Apart from economic methods, monopolies often resort to direct violence against outsiders: setting fire to their enterprises or planting bombs in them; murdering the most persistent opponents with the help of hired gangsters; blackmailing competitors and indulging in other refined machinations.

The battle between monopolies is primarily for the dominant position in a particular branch of production. The exceptionally high profits obtained by the monopolies in any industry inevitably attract the capital of monopolies operating in other branches, with the result that a fierce competitive struggle breaks out between them. This struggle also takes place within each industry for the dominant position in the market. The biggest monopolies fight particularly fiercely for military orders from governments since they bring in the highest and most stable profits.

The competition between monopolies is even fiercer and more persistent than between monopolies and outsiders, since forces possessing enormous economic resources are up against each other. Each of the powerful rivals strives to stifle its opponent. Vast resources are squandered in this way.

It is impossible to gain or consolidate a monopolistic position today without application of the results of scientific and technical progress. Only the monopolies that spend large sums on scientific research and acquiring patents on new inventions can expect to win under the present conditions of scientific and technical revolution. The monopolies are also striving to attract the most highly skilled labour from each other, especially research and engineering personnel. Competition between monopolies is not usually connected with prices, but is competition through improvements in quality with prices held or raised slightly, or through the production of new, more attractive varieties of traditional products with more useful qualities, etc.

This does not, however, imply that price competition has

been completely eliminated. Discounts from the advertised price lists are made for big buyers. This is usually done secretly. When there is a sharp change in the balance of forces between corporations in highly monopolised industries, open price wars often break out; but this method is usually reserved for squeezing out outsiders.

Monopolies prefer to respond to a change in the balance of supply and demand not by altering prices, but by changing the load on production capacities.

The outcome of the stubborn struggle of the giants depends, in the final analysis, on the balance of forces, but it often happens that the grappling and skirmishing of monopolistic octopi are unable to overcome or completely ruin each other. The result is usually an agreement on dividing spheres of influence, i.e. on joint domination by several monopolies, directed against other competitors and against the working people. These agreements do not in themselves signify the end of competition, but simply a change in its form.

One of the forms of the inter-industrial monopoly competition is struggle between the monopolies supplying commodities and those consuming them. The former try to raise prices, while the latter try to lower them. Inter-industrial competition also includes the struggle between monopolies producing substitutable products (the oil monopolies compete with the coal monopolies, railway monopolies with land transport and airline monopolies, and so on).

An important form of competitive struggle in the era of imperialism is that within monopolies.

The economic strength of the members of a monopolistic union, as a rule, is different, and the uneven development of capitalism tends to accentuate these differences. A change in the balance of forces between the members of a monopolist combination inevitably gives rise to attempts by the strongest to alter the conditions of the agreement in their own favour, which are opposed by the other members. Competition within a monopoly can become so fierce that it sometimes leads to the break-up of the monopoly itself.

The methods and the character of the struggle within monopolies are determined to a significant degree by the form of the monopoly. Within cartels, for example, the struggle is for the most profitable markets and over production quotas,

since the higher a member's quota in the overall volume of production, the greater is its share of the profits. Within trusts and groups, the struggle is for possession of the controlling interest, for a larger share of the distributed profits, for key posts on the boards and management, and so on.

Alongside the domination of monopolies, free competition between non-monopolised enterprises remains under imperialism both within industries and between them. In both cases, however, it is under conditions of monopoly domination, which is what distinguishes it from the free competition of pre-monopoly capitalism. And although, under imperialism, hundreds of thousands, even millions of small and medium capitalists are involved in the competitive struggle, the share of the non-monopolised sector of the economy is rather small.

Imperialism is thus a dialectical unity of two opposites, monopoly and competition. Monopolies dominate the economy, but far from eliminating competition, they make it fiercer and more complex, and alter its form. The combination of monopoly domination and competition gives rise to particularly sharp contradictions in contemporary capitalism. Imperialism intensifies exploitation of the working masses; as Lenin emphasised, monopoly oppression of the broad masses of the people "becomes a hundred times heavier, more burdensome and intolerable".[1]

3. THE FORMATION OF BANKING MONOPOLIES. THE NEW ROLE OF BANKS UNDER IMPERIALISM

The Concentration of Bank Capital and Its Causes

The domination of monopolies not only permeates the sphere of production; capitalist monopolies also develop and spread in the other spheres of the operation of capital. As Lenin wrote, "we shall only have a very insufficient, incomplete, and poor notion of the real power and the significance of modern monopolies if we do not take into consideration the part played by the banks."[2]

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 205.

[2] Ibid., p. 210.

The concentration of production in industry initiated similar processes in the banking sphere. Large industrial, commercial, railway and other undertakings were unable to invest their free resources in small banks, since the authorised capital of the latter was not sufficient to guarantee the safety of large deposits, and small banks did not have adequate resources to grant credit to large undertakings. The position of the big banks in the economy, therefore, strengthened while that of small banks weakened.

In England, the process of the consolidation of big banks at the expense of small ones took an unconcealed form of the swallowing of small banks by large ones. In 1890, there were 104 joint-stock banks in England and Wales, by 1910, the number had declined to 45, and by 1970, only eight remained. At the same time, there was a rapid increase in the number of branches of large and very large banks. Their network of branches in colonies and foreign countries became particularly wide.

Both in number of branches and share of total assets, the "Big Four" English banks (Barclays, National Westminster, Midland, and Lloyd's) are the undoubted masters in this important sphere of activity of British imperialism. The "Big Four" hold more than 90 per cent of the total of assets, deposits and advances of all British banks and have 12,820 branches in England and Wales.

As American capital developed relatively rapidly and the need for credit institutions rose, the number of banks increased from ten thousand at the beginning of the century, to thirty thousand in 1920. Later their numbers dropped to 24,000, and in 1967 there were only 13,700. However, the independence of the majority of local banks has been illusory for a long time, and they are, in fact, controlled by the most powerful banks, as can be seen from the fact that 50 banks possess 42 per cent of all the assets and do 44 per cent of all the credit transactions in the country.

The biggest private bank in the United States is the Bank of America, whose assets in 1971 were 33,900 million dollars and net profits 183,100,000 dollars. After it come the Chase Manhatten Bank, the Morgan Guarantee Trust, and others. The law of 32 states prohibits major private banks from having branches. The process of subordinating smaller banks

is done more secretly through a holding system, through correspondents and so-called banking chains (when small banks receive loans from big ones on security of a certain number of their shares, and so come under the control of the bigger banks).

The Formation of Banking Monopolies

The concentration and centralisation of banking had led by the end of the nineteenth century to the same result as in industry. "Among the few banks which remain at the head of all capitalist economy as a result of the process of concentration," Lenin noted, "there is naturally to be observed an increasingly marked tendency towards monopolist agreements, towards a *bank trust*."[1] Thus, alongside industrial monopolies, banking monopolies evolved, of which there are several kinds.

A banking cartel is an agreement between several banks on the temporary or permanent co-ordination of common interests (mutual responsibility for liabilities, the maintenance of single rate of interest on deposits and advances [loans], of dividends paid to shareholders, and so on).

A banking syndicate or consortium is a guarantee agreement among a group of banks to carry on certain profitable operations, the scale of which is so great that no one bank is able to do it alone. The operations include the floating of large government loans, the promotion of joint-stock companies with a large capital, and so on.

In some cases, as a result of the bankruptcy of many small and medium-sized banks, giant banks emerge. The shares of the ruined banks are bought up by one of the big banks and their offices are converted into branches of the latter. In this way, banking monopoly evolves, similar to the biggest trusts in industry.

A banking group is a monopolistic banking association established by a head bank through a controlling interest in other banks and financial institutions, i.e. through the "holding system".

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 219.

The New Role of Banks under Imperialism. The Merging of Monopoly Bank Capital and Monopoly Industrial Capital

A truly scientific explanation of the new position of banks in the system of monopoly capitalism was first given by Lenin, whose works devoted to analysing imperialism showed that the change in the role of banks was only one aspect of the historical process of the monopolisation of production and circulation.

In the era of free competition, industrialists and merchants could turn to many independent banks for loans, but in the new conditions, their freedom of choice was severely limited. A big bank demanded that its clients deal only with it or with banks controlled by it. In practice, an industrial company could not raise a loan from one bank and have its deposit account in another, independent bank. For their part, industrial monopolies were also interested in firm links with large reliable banks.

In the pre-monopoly period, the major banking operations dealt with the process of circulation, while bank credit was primarily short-term. Contacts between banks and industrialists or merchants were, therefore, irregular.

Technical advances in industrial production led, at the beginning of this century, to a significant rise in expenditure on fixed capital, which necessitated new relationships between industry and banks. Long-term credit began to occupy an increasingly important place in banking operations.

Connections between the biggest banks and industrial and railway companies became increasingly stronger and more permanent since long-term credit, especially in large amounts, could only be extended by major banks. For long-term credit, moreover, a bank required more solid security for loans; so banks had to study the position of the industrial companies to whom they granted credit more carefully, to watch their assets and liabilities and to put representatives on the boards of debtor companies to observe what use was made of the extended credit. The desire for easy profits urged some bankers, making use of their detailed knowledge of the affairs of a number of companies, to invest their own capital in the shares of joint-stock companies yielding a big income, thus

ensuring themselves higher profits than from purely banking operations.

At the same time, industrial monopolies were not content to remain the passive partners of the giant banks. They also become the co-owners of the banks, which was made simpler by the banks becoming joint-stock enterprises. Many major industrial monopolies set up their own banks and established personal links with the monopolist banks in which they were most interested, introducing their own directors onto the supervisory councils and boards of these banks.

The result was a close interweaving of bank and industrial capital. Bankers do not remain simply bankers, i.e. money capitalists, but become banker-industrialists, and industrialists become industrialist-bankers.

4. FINANCE CAPITAL AND THE FINANCIAL OLIGARCHY. THE FINANCIAL OLIGARCHY'S METHODS OF DOMINANCE

The Essence of Finance Capital

Finance capital is the result of the interweaving or coalescence of the capital of major banking monopolies with that of industrial monopolies. Consequently, it is monopoly industrial capital merging with monopoly banking capital. Describing its essence Lenin wrote: "The concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry—such is the history of the rise of finance capital and such is the content of that concept."[1]

Lenin's definition of finance capital differed fundamentally from that given by Rudolf Hilferding in his book *Finance Capital*. According to Hilferding, finance capital was capital controlled by banks and employed by industrialists, a definition that did not distinguish finance capital essentially from banking capital. It was a consequence of a

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 226.

mistaken assumption of the primacy of circulation over production.

Finance capital is neither banking capital nor industrial capital, but a new type arising in the period of imperialism.

The Financial Oligarchy and the Way It Dominates

With the formation of finance capital, a financial oligarchy also emerged—a relatively small group of financial magnates completely dominating the economic and political life of imperialist states. The degree of their domination and the scale of their influence on the home and foreign policy of a country depends primarily on the development of finance capital. The financial oligarchy is not a formal union, although it is often referred to as the "Council of the Gods", the "Multimillionaires' Club", and so on. In reality, it consists of a small number of groups of major financiers who are closely interconnected through interlocking directorships, the "holding system" and other forms of economic, political and family ties.

In the USA, there are now 26 major financial monopoly groups, 18 of which control industrial, construction, transport, trade, credit and banking, and other American corporations with total assets of 1,250,000 million dollars. Among them are the Morgan, Rockefeller, California, Chicago, Texas, and other groups. The biggest financial oligarchy group—the Morgan group—controlled total industrial, banking and other assets of 410,000-420,000 million dollars in 1973, six times more than ten years earlier.

There are similar financial oligarchy groups operating in other imperialist spheres.

For a long time, these groups were under the personal control of their founders or of their heirs. This type of control, however, gradually weakened and the family groups became coalitions controlled not by a single individual or family, but a small group of financial magnates. This is the type of group that now operates, though some are still called after their founders.

In studying the methods by which the financial oligarchy

established its domination over the economy, Lenin singled out the *"holding system"* method as the most common one.

A necessary condition for the development of the "holding system" is the joint-stock form of enterprise in which each shareholder has the same number of votes as shares. The "holding system" is a method, by which monopoly financial groups bring the capitals and enterprises of others under their control by obtaining the controlling interest in these undertakings.

The domination of major shareholders under the "holding system" is reinforced by the creation of a chain of connections between the principal or head company and other companies and undertakings under its influence. The head (or "mother") company has the controlling interest in several "daughter companies". These, in turn, have the controlling interest in a further group of companies, which are then the "grandchildren" of the head company. Thus there are holdings of the first, second, third and higher degree, or a multi-storeyed pyramid of dozens of joint-stock companies. The total capital of all the companies in the pyramid is often dozens of times greater than that of the "mother company". Originally, 50 per cent of a corporation's shares were needed in order to exercise control over it. In the course of time the size of controlling blocks of shares has fallen considerably. The practice of issuing a large number of small shares has resulted in 10 to 15 per cent of a joint-stock company's shares being enough nowadays to give control over it; in some instances 1 or 2 per cent suffices, when the majority of the shareholders have only a few shares. Small shareholders, receiving dividends on them, are officially counted as co-owners of the company, although they can exercise no influence on how it is run, and they usually hand over their votes to the corporation's board. In the USA, for example, there are more than 30 million shareholders, but control of the economy is in the hands of a small group of financial magnates. In spite of the assertions of bourgeois scientists, there has been no "democratisation of capital". On the contrary, the domination of the financial oligarchy is increasing. At the beginning of the 1970s, 57 and 61 per cent of the national wealth of the United States and Great Britain respectively was concentrated in the hands of the richest 3 per cent of the population.

Financial tycoons seek control of the whole pyramid of companies for a particular purpose. It enables them to bring pressure to bear on competitive monopoly groups, to wring high monopoly profits from all the subordinate enterprises and to accumulate vast amounts of capital in the form of reserve funds. Bourgeois economists cynically, but at the same time aptly, called this the "milking" of "daughter companies".

The holding system is reinforced by *personal union*, i.e. reciprocal representation of the directors of banks and corporations or groups on their boards of directors, management boards, and other directing bodies. An obvious example of such a "personal link-up" is the personal representation of the directors of the "Big Four" London banks in other financial monopoly groups and companies. About 150 directors of these banks hold more than 1,000 directorships in other companies.

Thus, the "holding system" and interlocking directorships ensure financiers the most favourable positions for controlling other people's capital and the highest monopoly profits. The financial oligarchy also use other methods to increase their wealth: the system of monopoly prices, stock-market speculation, the extraction of promoters' profit and profit from the issue of bank notes, the grabbing of government orders (especially military ones), land speculation, and so on.

After the Second World War, a number of new forms and methods by which the financial oligarchy increase their wealth began to develop. So-called *self-financing* developed and spread rapidly; this is the financing of capital investment, including investment in new enterprises, not on the basis of bank credits or issue of securities (shares and bonds), but primarily from the profits and depreciation allowances of the enterprises belonging to the monopolies themselves. This can be explained by the enormous growth of monopoly profits and by an artificial increase in the rate of depreciation of fixed capital widely practised by the monopolies to conceal profits from the tax authorities. Firm long-term links between monopolies and banks are not, however, weakening. Finance capital is expanding and becoming firmly established.

Further changes have also taken place in the activities and role of banks, which still remain the main financial institutions of contemporary capitalism. Long-term credit to industrial, transportation, commercial and other companies has been developed even widely. American banks, for example, now extend enormous loans to functioning monopolies for periods of eight to ten years, mainly because the banks have accumulated enormous credit resources which they cannot place solely by granting short-term credit. Furthermore, with self-financing being common, it is only profitable for industrial monopolies to take long-term credit and in large amounts. Operations with long-term credit naturally lead to further merging of monopoly banking and industrial capital.

A new form of this is known as *trust* or *proxy operations by banks*. Banks accept capital, property and securities from representatives of the monopolistic bourgeoisie for "management by proxy", i.e. for profitable use. Up to 30 or 40 per cent of the shares of major US industrial concerns are concentrated in the main private commercial banks. Managing the securities of millionaires and billionaires is not, of course, the same thing as owning them. The banks, however, have wide powers to use these means in order to penetrate deeper into the production sphere.

Insurance companies have become serious competitors of banks in recent decades. The considerable expansion of insurance is connected with the increasing insecurity the population feel about their future. The assets of life insurance companies in the USA alone exceed 220,000 million dollars. The total assets of all insurance companies have increased 13-fold over the past 40 years and are now worth 285,500 million dollars. The enormous resources of insurance companies are largely used to buy government bonds and to extend credit to industrial corporations. Thus, the insurance monopolies are becoming merged with the industrial and banking monopolies and form the most important link in the contemporary system of finance capital.

Investment trusts began to appear in the USA as early as the 1920s. They are special institutions in the sphere of circulation, the purpose of which is to mobilise free cash resources in the interests of the financial oligarchy. Trusts issue their

own small shares for sale among broad strata of the population. With the resources received in this way, the trusts in turn buy the shares of major corporations. The difference between the overall dividends received by trusts and those paid to the trusts' small shareholders constitutes their income. Investment trusts are usually under the control of the largest banking monopolies.

As a result of the development of fictitious capital, the need arose with monopolies for new organisational forms, making it possible to manage the vast quantities of securities, particularly since dealing in them brings in large profits. One of these forms is the *holding company*. Holding companies are set up by the financial oligarchy in order to obtain controlling blocks of shares in corporations. Their field of activity is stock exchanges and the capital markets. The shares of the holding companies themselves are owned by the monopolistic bourgeoisie. Holding companies have developed particularly extensively in the USA and in certain other imperialist countries.

A new field being subordinated to finance capital is *private pension funds*. The resources of these funds are formed from deductions from workers' wages and from the profits of corporations on which the latter are not obliged to pay taxes. Although pension funds are the result of a persistent struggle and are a gain obtained by the workers, they are widely used by the financial oligarchy to increase their wealth. Since the assets of pension funds are many times greater than the sum of the pensions paid out, banks or trustees managing these funds by proxy use their resources to buy shares and bonds and so finance the capital investment of corporations. Private pension funds in the USA rose from 500 million dollars in 1929 to 100,000 million dollars in 1971.

Taking all these new phenomena into account, *contemporary finance capital* must be defined as the *capital of monopolistic financial and credit institutions (not only banks), merged with the capital of industrial monopolies.*

The entire ramified mechanism of financial exploitation is used by the monopolistic bourgeoisie for its own enrichment and for strengthening its domination over the economy and policies of capitalist countries.

The Reactionary Role of the Financial Oligarchy

The concentration of actual control over social production and over national wealth in the hands of a few close-knit groups leads to the domination of several hundred financial magnates over the economic and political life of the country, irrespective of the type of government in the given capitalist country (whether republican, monarchical, or other).

Changes, of course, take place in the composition of the financial oligarchy. Old financiers die, handing on their property to their descendants. Some groups disintegrate under the blows of competition and new ones take their place, but control over the predominant section of industry, transport, commerce and banking in imperialist countries invariably remains in the hands of a small number of financial groups.

The omnipotent financial oligarchy grow in strength through their expanding connections with the state apparatus and its numerous organs dealing with home and foreign affairs. A fierce struggle goes on between the major financial groups for the most responsible posts in government and for places in the legislative organs.

All the major organisations designed to mould "public opinion" (the biggest publishers, newspaper and magazine trusts, radio companies and television companies) are in the hands of the financial oligarchy and indoctrinate the working people in the interests of the bourgeoisie. A high degree of monopolisation of the mass media facilitates the task of subjugating the ideological life of capitalist countries to the dictates of the financial oligarchy.

The reactionary role of the financial oligarchy is particularly clearly manifested in preparations for war and unleashing of imperialist wars, in the use of the whole power of the state to strengthen its domination and its exploitation of the workers.

Chapter 11

EXPORT OF CAPITAL. ECONOMIC AND TERRITORIAL DIVISION OF THE WORLD

1. EXPORT OF CAPITAL AS A CHARACTERISTIC OF IMPERIALISM

The Possibility and Need for Export of Capital in the Era of Imperialism

The spread of the omnipotent monopolies beyond the boundaries of the imperialist states and their drive to gain control of the whole world find expression primarily in the export of capital. Export of capital from one country to another also took place in the pre-monopoly stage of the development of capitalism, but it only began to play a role of paramount importance in international economic relations at the end of the last century and the beginning of this. "Typical of the old capitalism," Lenin said, "when free competition held undivided sway, was the export of *goods*. Typical of the latest stage of capitalism, when monopolies rule, is the export of *capital*."[1]

Lenin showed that these changes were the result of the general laws governing the growth of capitalism into imperialism. Imperialism is a universal system of the domination of finance capital and the export of capital is one of the ways in which it exercises this domination.

Monopolies accumulate mounting sums of money capital from the high profits they receive and from bankrupting small and medium entrepreneurs and concentrating their capital in the hands of the financial oligarchy. The rapid development and monopolisation of the credit and banking system also promoted accumulation of money capital.

At the same time, the dominance of monopolies led to a further intensification of exploitation of the working class, to an enormous inflation of market prices, to robbery of the

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 240.

peasantry, to growth of unemployment and increased poverty of the working masses and, consequently, to an ever widening gap between the growth of the home market and the rate of capital accumulation. The sharp intensification of the contradictions between the possibilities for expanding production of commodities and the conditions under which they were sold became a permanent barrier to highly profitable employment of the money capital accumulated by the financial oligarchy. Special conditions were thus created under imperialism that led to the piling up in a number of countries of a "surplus" of capital that could be invested more profitably abroad. This "surplus", of course, was relative, as the capital could easily have been used to develop a number of backward industries in the imperialist countries themselves, but then it would not have brought in such high monopoly profits as it did abroad. Thus an *objective need* arose, determined by the very essence of monopoly, *to export capital* to other countries.

This necessity went hand in hand with the *possibility of exporting capital*, which had already been prepared during the period of free competition, mainly by the rapid development of foreign trade. The relatively cheap products of capitalist factories penetrating economically less developed countries greatly accelerated the disintegration of small commodity production and the transition of these countries from isolated subsistence economies to commodity-money relations.

The small demand for labour power because of the shortage of local capital, the weak organisation of the emerging proletariat and the generally low standard of living brought into existence a cheap labour power in developing countries.

Furthermore, industry in developed capitalist countries placed an ever growing demand for the raw materials that could be obtained from economically less developed countries. The existence of cheap manpower in the latter, in conjunction with favourable natural conditions and low prices for land, made it possible to obtain large amounts of raw material with the minimum outlay.

The development of transport played a significant role in creating the right conditions for the export of capital, in particular, the building of big ocean-going vessels, which made it economically profitable to transport large cargoes of raw

materials and foodstuffs, and also the building of ports, railways, highways and the laying of pipelines, which made it possible to get raw materials from remote areas of economically less developed countries.

By the end of the last century, both the possibility and necessity of exporting capital had thus arisen and the right conditions had been established for all-round financial exploitation of most of the people of the capitalist world by a handful of imperialist powers.

The Essence and Forms of the Export of Capital

Monopolies export capital, as a rule, to obtain high monopoly profits. The capital exported may not participate directly in the production of surplus value, but it necessarily facilitates the drawing of income by the most varied means and in the most varied forms, e.g. in the form of industrial, banker's and commercial profit, interest on loans and rent of land.

The sources of profit on exported capital are not only the surplus value created by the labour of wage workers, but also a part of their wages and of the incomes of other strata of the population of the developing countries, and state budgets of these countries. The export of monopoly capital, and then the reinvestment of the profits, were the basis for the enslavement of the peoples of economically less developed countries.

The export of capital is thus a form of the movement of "surplus" monopoly capital in the hope (a) of extracting monopoly profits for the financial oligarchy of the imperialist countries through the oppression and exploitation of most nations, and of the peoples of developing countries in particular, and (b) of extending and strengthening the domination of monopolies throughout the capitalist world.

The export of capital from one country to another takes different forms, and may be divided, according to function, into productive (entrepreneurial) and loan capital.

Productive (entrepreneurial) *capital* is invested in industry, agriculture, transport and commerce by its owners themselves for the sake of profit. In this case, the foreign monopolies

themselves directly exploit the working people of the countries in which their capital is invested.

Loan capital is exported in the form of foreign loans extended to governments, banks, and industrial, commercial and other corporations in other countries for the sake of a fixed rate of interest. In this case, the foreign monopolies, while remaining owners of the capital, transfer the right to employ it abroad for a specific period of time and participate in the exploitation of the workers of other countries, not directly but through the borrowers of the capital.

2. THE ECONOMIC CONSEQUENCES OF THE EXPORT OF CAPITAL

The Twofold Result of the Export of Capital to Developing Countries

One of the most important and general economic consequences of the export of capital was an extraordinary acceleration of the spread of capitalism, it having been the means by which monopolies energetically implanted capitalist relations of production among the huge populations of Asia, Africa and Latin America which were at earlier stage of development. "The export of capital influences and greatly accelerates the development of capitalism in those countries to which it is exported," Lenin wrote. "While, therefore, the export of capital may tend to a certain extent to arrest development in the capital-exporting countries, it can only do so by expanding and deepening the further development of capitalism throughout the world."[1]

The accelerated development of capitalism in developing countries associated with the export of capital there did not imply adequate development of the productive forces of those countries. Cheap manpower and monopoly control of the richest sources of raw materials, which made for exceptionally low costs of production, enable foreign monopolies to derive high profits there without special outlays

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 243.

on the introduction and improvement of techniques and equipment.

Since the export of capital is accompanied by an increase in the export of industrial goods to developing countries, their own national capital fails to compete with the foreign monopolies and is confined to usury, and to the intermediary and service spheres, and exerts no noticeable effect on the development of the country's productive forces.

Account must also be taken of the fact that a considerable share of foreign capital is employed not in production but in trade, credit and insurance, and for covering military expenditure, financing the machinery of oppression, and the like.

Only that part of foreign monopoly capital that goes directly into the construction of new industrial, transport or agricultural undertakings, or the expansion of existing ones, promotes growth of production in developing countries; but even then, the investment is not determined by the national interests of these countries and peoples, but exclusively by those of the capital-exporting monopolies.

A substantial share of foreign monopoly capital is invested in the extractive industries and agriculture.

Furthermore, each developing country specialises, as a rule, in the production of one or two products only for export; and this one-sided specialisation as well as agrarian and raw material orientation of its economy makes it dependent on the foreign monopolies and turns it into nothing more than an appendage of an imperialist state.

The export of capital results in foreign monopolists appropriating, without compensation, a significant share of the national income created by the working people of the developing countries.

According to UN estimates developing countries would have to pay more than 47,000 million dollars in 1972-77 to developed capitalist countries simply to pay off state and state-guaranteed indebtedness.

Thus, even the foreign capital invested in material production, which initially makes for a certain development of the productive forces, later inevitably becomes a brake on the economic progress of developing countries.

Export of Capital— Parasitism of a Higher Order

Since the export of capital brings the monopolies huge profits, the stimulus to expand and improve production within the capital-exporting countries is weakened in a number of industries yielding "insufficient profits". The separation between the possession of capital and its productive use vastly increases and there is an extreme growth of the number of rentiers, people often even unaware of the country in which their capital is invested, or the use to which it is put, and leading an idle life on income from foreign investments.

The export of capital, consequently, not only promotes an extension of the boundaries of capitalist exploitation, but also greatly increases the parasitism and decay of capitalism. The slowing down of growth of the productive forces in the capital-exporting countries and their one-sided, misshapen development in the capital-importing countries, enrichment of some states through rapacious exploitation and robbery of the peoples of other states, the total gap between capital as property and capital as a function, and the rapid growth, on that basis, of the number of people leading parasitic lives, and corruption of the top leadership of the working class– this is the pattern of the inevitable economic consequences of the export of capital that Lenin described as parasitism of a higher order.

3. NEW FEATURES IN THE EXPORT OF CAPITAL

With the development of imperialism, changes took place in the balance of forces between capital-exporting countries, and in the volume, structure, forms, concrete goals of the export of capital, its geographical distribution and so on, changes that were particularly big after the Second World War.

The most general features of these changes were (1) significantly more complex international conditions for the export of monopoly capital; (2) an increased unevenness of the export of capital, the transformation of US monopolies into the big-

gest financial exploiters in the capitalist world, and an intensification of the struggle between imperialist countries for spheres of capital investment; (3) a strengthening of the state-monopoly trends in the export of capital; (4) the military orientation of the export of capital and a steep rise in its military and policing use; (5) the transformation of the export of capital into the main economic support of neocolonialism. The export of capital remains, as before, the main economic bastion of imperialist domination in developing countries.

Changing Conditions for the Export of Capital

A main cause of fundamental changes in the international conditions for the export of capital was the formation of the world socialist economic system and its gradual development into a decisive factor in the advance of human society. This found clear expression, in particular, in the breaking of the imperialist powers' monopoly of granting credits and loans to developing countries. The varied assistance given to countries, which have freed themselves from colonial dependence, by the Soviet Union and other socialist states, without political conditions of any kind, has forced the imperialists to make a number of concessions in the export of capital to the developing countries and to limit and camouflage their exploitative aims.

Another important factor leading to sharp deterioration of the conditions for exporting capital was the collapse of imperialism's colonial system. Taking the path to independent development, the newly-emerged states have often nationalised the property of foreign monopolies, limited, and sometimes even suppressed, their activities in a number of spheres, have won increased payments for concessions, have restricted the transfer of profit abroad, and so on.

Increased Unevenness in the Export of Capital

The Second World War caused fundamental changes in the balance of forces between the world exporters of capital.

As a result of the war, Germany, Italy and Japan lost

nearly all their foreign investments, and France and the Netherlands about half. Great Britain had to sell about a quarter of its foreign investments to pay off war debts. The economies of these countries, moreover, required enormous capital investments in order to restore what was destroyed during the war and to renew obsolete fixed capital. Their currency reserves were completely exhausted.

The monopolies of the USA, grown rich on the war, did not fail to take advantage of this situation. In the first post-war years they had an almost complete monopoly of the capital market, and "surplus" American capital poured into many countries.

To retain their hold on their colonies and dependencies, however, Britain and France resumed active export of capital right after the war, in spite of the fact that they themselves were receiving large sums in military and economic "aid" from the USA.

From the beginning of 1952, the Western allies removed the ban on the export of capital from West Germany and Japan that had been imposed by the conditions of surrender. From then on, West German and Japanese monopolies also began with increasing success to return to the position they had lost among capital exporters.

First place in terms of the volume of foreign investments is now occupied by the United States of America. The total foreign investments of the USA amounted to 181,000 million dollars in 1972, including private monopoly investments of 145,000 million dollars (80 per cent) and 36,000 million dollars of state holdings (20 per cent).

In 1972, Great Britain's overseas investments were 56,000 million dollars, those of the Federal Republic of Germany 29,000 million dollars, of France 23,000 million dollars, and of Japan 6,800 million dollars in a world total of 345,000 million dollars.

A new phenomenon in the export of American capital since the war has been its flow into developed capitalist countries. At present, more than 70 per cent of the foreign investments of US monopolies are in developed states, particularly in European capitalist countries, and in Canada and Japan. This is not because the rate of profit on capital exported to developing countries has fallen but because the changes

in developing countries are limiting the opportunities for export of capital on the same conditions as before and are reducing the interest of private monopolies in investing in those countries. Shifts in the structure of the economies of the imperialist countries due to the scientific and technical revolution, however, are playing a decisive role in this process. West European monopolies have not had enough capital at their disposal, since the war, for the development of new branches of the economy. The holders of such surplus capital and of the patents and know-how of the new technologies have been American monopolies. Of some significance, too, was the fact that wages of the working people in capitalist Europe were considerably below those in the USA, which makes for higher profits. Of major importance, too, is the task of overcoming the obstacles by the customs barriers of the Common Market. The US monopolies have begun to build enterprises and get control over enterprises in Common Market countries. The goods produced by these enterprises are not subject to customs duties. It is not surprising that the sales of the European branches of American monopolies are now twice as big as these monopolies' annual exports to Europe from the USA.

Major exporters of capital and rentier states are Britain and France. More than half of British and French capital is directed to the countries of their former colonial empires where, in spite of the expansion of American capital, Britain and France still, as a rule, hold strong positions.

The West German monopolies have been experiencing rapid external economic expansion. Although West Germany is third among the major imperialist powers (after the USA and Britain) in absolute terms of foreign investments, in terms of the rate of growth of its capital exports it outstrips all other capitalist countries. West German and Japanese monopolies are exporting capital even to the USA. At the time of writing, foreign investments in the USA amount to 66,000 million dollars; only less than a quarter of them, however, are connected with control over American enterprises.

The USA makes the greatest profits from the exploitation of other peoples receiving about half the gross and three-quarters of the net revenues from the export of capital.

According to official data published in the US Department of Commerce's bulletin *Survey of Current Business*, the total net profit brought to the United States by American direct private investments in 1974 was 17,700 million dollars, against 8,800 million dollars in the previous year. This was mainly because the American monopolies made the most of the fuel and raw material crisis to enrich themselves to the maximum.

As already mentioned, most developing countries only import capital. Some, however, mainly the oil producers, have by now a big active balance of payments as a result of the energy and raw material crisis and the steep rise in prices of oil and certain raw materials. These countries have also begun to export capital, primarily to developed capitalist countries.

Growth of State-Monopoly Tendencies in the Export of Capital

A most important feature of the post-war export of capital has been its rapid growth in the form of state investments and loans. The main cause of this trend is the acute weakening of the position of imperialism and the strengthening of the influence of the forces of socialism throughout the world. Salvation of the capitalist mode of production in the centres of world capitalism (Western Europe and Japan), preservation of colonialism on its frontiers, the drive to steer the countries newly liberated from colonialism along the road to capitalism, financial support for reactionary classes, parties, groupings and cliques, the support of corrupt puppet regimes, the creation of military blocs and their arming—these are the concrete goals of capital investment that, although not yielding large profits directly, is intended ultimately to ensure the dominance of the financial oligarchy. State capital is also used when, for various reasons, it is unprofitable or risky to invest the capital of private monopolies.

In order to conceal its true motives and exploitative essence state export of capital is often carried out on the false pretext of extending "aid" to foreign states; but this "aid" is sent where it most accords with the military and political interests of the imperialist powers; much of it is intended for military

purposes and is used, as a rule, to buy arms from the same imperialist powers. Far from helping developing countries to overcome their economic backwardness, such "aid", on the contrary, strengthens it by engendering non-productive expenditures of a significant part of their resources for military purposes.

The main exporter of state capital is the United States of America; and the export of capital is one of the factors economically ensuring that country the leading role in the modern capitalist world.

Each time subsidies or loans are extended, a number of conditions are stipulated, aimed at reducing the newly-won political independence of the recipient states to an empty formality, i.e. to prevent them from taking a non-capitalist path of development, to preserve the one-sided agrarian and raw material orientation of their economies, and to strengthen and perpetuate the dominance of capital in general and of foreign monopoly capital in particular.

International Finance and Credit Organisations as a Form of Capital Export

One of the most important of the forms of capital export that have developed since the Second World War is the activity of international state-monopoly credit organisations, the most prominent of which are the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation and the International Development Association. Since the USA makes the biggest contributions to these organisations, in practice it controls their activities and directs them primarily toward the external economic expansion of American monopolies.

In March 1958, the biggest banks of the West set up the Regional Corporation for the Industrial Development of the Countries of the Middle East (MIDEC), the aim of which was to ensure control by the finance capital of imperialist countries over the economy of this very important oil-producing region. On the same pattern, the Inter-American Development Bank was founded in 1961 and the Asian Development Bank in 1966, under the full control of American finance capital.

The structure and activities of these banks and other credit institutions reveal the distinctive features of present-day capital export.

(1) Every possible assistance is rendered to expand private capitalist enterprise in developing countries against the growing state sector of the economy, which is aided by socialist states.

(2) Foreign monopoly capital is intensively merged with local national capital, so that the latter can be involved as a junior partner in exploiting and robbing the peoples of developing countries. MIDEC, for example, only extends credit on the condition that 70 per cent of the funds financing the enterprise are put up by entrepreneurs in the countries receiving the "aid".

(3) These organisations themselves, the economic basis of which is the export of capital, are typical of the new, collective colonialism, i.e. the union of imperialist powers, with the USA at the head, for the joint financial enslavement of new states.

Changes in Capital Exports by Branches of Industry

The new conditions have given rise to fundamental changes in the distribution of capital exports. In recent years, the fastest growth rates of investment have been in the manufacturing industry, which is linked not only with a certain reorientation of the export of private capital into developed capitalist countries, but also with the infiltration of foreign monopolies into industries producing consumer goods and also into growing engineering, chemical and electrical-engineering industries of developing countries. Investment is usually combined with deliveries of equipment to these countries and carrying out building contracts, which enables the monopolies exporting capital to establish control also over the field of capital construction.

Direct investments, enabling capital-exporting monopolies to exercise complete control over enterprises and whole industries in other countries, have begun to play a predominant role. A very important form of capital export at the present stage is the export of patents and scientific informa-

tion, and also the technical "aid" to developing countries, so widely publicised by the imperialist powers.

4. THE ECONOMIC DIVISION OF THE WORLD BY INTERNATIONAL MONOPOLIES

International Monopolies and Their Forms

Monopolies, first of all, divide up the home market between themselves, but when their scale of production outgrows the national market, a struggle begins between the monopolies of different countries for control of foreign markets, sources of raw material and spheres of capital investment.

The concentration of production has reached such a degree that a significant share of total world production of the most important types of commodity is concentrated in the hands of the biggest national monopolies. Once a few monopolies in different capitalist countries begin to play the decisive role in the production of any particular commodity, competition between them becomes particularly fierce and destructive. At the same time, agreements between them become possible and a tendency develops for international monopolies to be formed, which consolidates their dominance of the world capitalist market. As Lenin said, "this is a new stage of world concentration of capital and production, incomparably higher than the preceding stages."[1] This gives rise to *international monopolies* or *supermonopolies*, as Lenin called them.

The export of capital and the expansion of the foreign economic links and of spheres of colonial influence of the biggest national monopolies, resulting in the internationalisation of capital and economic relations, played a vast role in laying the foundations for the development of international monopolies.

The first international monopolies had developed in the most highly concentrated branches of production in the 1860s to 1880s, but they only became a typical feature of capitalism at the turn of the century. Lenin penetratingly

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 246.

analysed their rise and showed that their formation, and the economic division of the world, was one of the most important features of imperialism, noting that, according to rough estimates, there were some 40 international monopolies at the end of the nineteenth century, and around 100 by 1910.

By the beginning of the Second World War, there were already over 1,000 international monopolies, which controlled more than 40 per cent of the foreign trade of the capitalist world. In the last 25 years, the international monopolies have set up around 10,000 new "daughter" companies in many countries, producing an annual output of over 200,000 million dollars. Three-quarters of the biggest are controlled by American capital.

International monopolies take different forms which are modified forms of the national monopolies (see Chapter 10). The commonest are cartels, the members of which (national monopolies) are linked together by agreements on the buying and selling prices of commodities, on the sharing out of the world market between them, on production and sales quotas, on fines and bonuses, and so on. One variety of international cartel is agreements between the monopolies of different countries on the mutual exchange and utilisation of patents for new inventions.

Another form of international monopoly is the syndicate, which is, however, much rarer.

International monopolies also take the form of trusts and groups. In most cases, they arise through the setting up by national monopolies of subsidiaries abroad. Today, the powerful national monopolies of the main imperialist countries extend far beyond the national market and have become international or multinational.

The Reactionary Role of International Monopolies

The main aim of monopolists' international organisations is to ensure their members high monopoly profits. They achieve this goal in various ways, including, among others, (1) the establishment of high monopoly prices on the commodities sold by their members and of lowered prices for the raw

materials, etc. supplied by developing countries; (2) control of the scale of production and sales of a particular commodity by fixing appropriate quotas for their members in order to create an artificial gap between supply of and demand for the product; (3) sharing out of the world market and sources of raw material in order to limit mutual competition; (4) agreements on the exchange and mutual use of patents.

Lenin pointed out that the domination of international monopolies inevitably led to stagnation and decay. They often cut production, limited trade and kept important inventions and scientific discoveries secret.

The international unions of monopolists actively push the governments of imperialist countries into military conflicts. The arms trade, being the most profitable business of the international monopolies, continues to be carried on even during a war, regardless of which side gets the weapons supplied.

International alliances of monopolists had helped put Germany's arms industry back on its feet and assisted fascism to come to power. They also played a fatal role in unleashing the Second World War.

Since the war, the international alliances of British, American and French monopolists again played a decisive role in putting the West German arms monopolies back on their feet.

5. THE STRUGGLE BETWEEN MONOPOLIST ALLIANCES FOR ECONOMIC REDIVISION OF THE WORLD

The Post-War Development of International Monopolies

The world capitalist markets for the most important industrial goods, raw materials and semi-finished products are now controlled by the international monopolies.

The world oil cartel the "Eight Sisters", which includes five American companies (Standard Oil of New Jersey, Mobil Oil, Gulf Oil, Texaco and Standard Oil of California), the Anglo-Dutch company Royal Dutch-Shell, the British

Petroleum Co., and the French Compagnie Française de Pétrole, is a typical example of a very large present-day monopoly. The "Eight Sisters" control about 90 per cent of all known deposits of oil in the non-socialist world and 71 per cent of its production. The cartel operates in many capitalist countries and, by fixing high monopoly prices for oil and oil products, derives fabulous profits.

For a certain period after the Second World War, the biggest American monopolies showed no interest in concluding agreements with European monopolies, mainly because they were in the dominant position on the world capitalist market. Taking advantage of the weakened position of their European competitors, they penetrated deep into the economies of European countries and their colonies. In other words, American monopolies were international monopolies, though they appeared in national form. For most of them, the same situation still exists. The three American motor industry giants mentioned above (General Motors, Ford, and Chrysler) and their foreign subsidiaries now produce over 50 per cent of all the motor vehicles in the entire capitalist system. The US aluminium monopolies (ALCOA, Reynolds, and Kaiser) produce around 70 per cent of the aluminium of the whole non-socialist world.

At the same time, however, many European monopolies have regained and multiplied their power in post-war years, becoming major competitors of the American monopolies.

In 1948, the international tube cartel was revived, embracing West Germany (41 per cent quota), Great Britain (33 per cent) and France (26 per cent). In 1963, the international wire cartel, first formed in 1927, which ceased to operate during the Second World War, was re-established. In the same year, an international cartel was again set up to control the export of steel, embracing the big steel monopolies of West Germany, France, Belgium, the Netherlands and Luxemburg. At the present time, there are international cartels, with European monopolies' participation, covering electrical equipment and electric lamps, copper, diamonds, radio equipment, nitrogen, etc. Some of the monopolistic national associations of Japan have grown into multinationals and now occupy first place in the world in shipbuilding, radio electronics and other industries.

In present conditions, certain new forms and methods have evolved in the struggle for economic division of the world. The members of world monopoly alliances now lay the main emphasis on the forms of division of the world in the spheres of production, and science and technology. Agreements are being made in which compacts on the division of markets are combined with long-term co-ordination of activities in introducing new techniques and technology. These are commonest in science-intensive fields like chemicals, electronics, engineering, and instrument-making. Agreements on scientific and technical co-operation, the sharing of production programmes, experimental and design work, specialisation and co-operation in production, between concerns in different countries have become common. The current forms of division that are developing rapidly include joint undertakings belonging to the monopolies of separate countries, a form of international alliance that is particularly convenient for penetrating countries liberated from colonialism.

Modern *private international monopolies*, whose activities are on an immeasurably greater scale than at the turn of the century, can be divided into two main groups: *multinational monopolies* that pool the capital of different imperialist countries; and *transnational monopolies*, which are national companies in terms of their capital, but international in their activities. Both types are international monopolies with a ramified network of subsidiaries and branches created in many countries in order to obtain monopoly profits and divide markets and spheres of influence.

Examples of private multinational monopolies are the officially Canadian, but in practice Anglo-American-Canadian, International Nickel Company of Canada, the Belgian-Franco-Luxemburg steel company Arbed, the Belgian-West German photochemical firm Agfa-Gevaert, and the Anglo-Italian rubber and chemical merger Dunlop-Pirelli. It is the transnational monopolies, however, that are commonest and most important. According to the UN Secretariat's experts, there were 7,300 transnational companies in the capitalist world at the beginning of the 1970s. These had 27,300 foreign subsidiaries with total foreign investments amounting to 165,000 million dollars. In 1971, the output of the foreign subsidiaries of transnational monopolies reached 330,000 million dollars,

or a sixth of the gross product of all capitalist countries. According to some estimates the 700 biggest transnational corporations will control 60 per cent of world capitalist production through the networks of their foreign subsidiaries, by 1980, and 75 per cent by 1985. About 60 per cent of the output of foreign subsidiaries of transnational monopolies belong to American companies.

The wide development of transnational monopolies resulted from the new conditions of the post-war period. The sharp contraction of the territorial sphere of imperialism, owing to the development of the world socialist system and the collapse of the colonial system, the further deepening of the general crisis of capitalism, the struggle of the developing countries to consolidate their political and economic independence, the growth of class struggle and of the anti-imperialist movement in the capitalist world, the extreme intensification of the contradictions between the mounting concentration of capital and narrow national markets, and the scientific and technical revolution—are all factors directly affecting the economy of modern capitalism, including the development of international monopolies in the form of transnational and multinational corporations. Production and capital are becoming concentrated across national boundaries in the hands of the biggest private monopolies, which threaten the sovereignty of many countries in the capitalist world, particularly of the developing countries.

A distinctive feature of the present struggle over economic division of the world is the development of international state-monopoly agreements. These were first conceived before World War II (for wheat, sugar, rubber and other raw materials) but it has only been since the war that they have developed widely and begun to play an important role in the world capitalist economy. In 1946, the International Bank for Reconstruction and Development and the International Monetary Fund, which were in fact under the control of the US financial oligarchy, began functioning. In 1951, the International Conference on Raw Materials was formed, which is a typical monopoly organisation, fixing the scale of mining of raw materials, prices and so on.

A further development of international state-monopoly relations has taken the form of integration.

As early as 1951, the European Coal and Steel Community was formed embracing the iron and steel and coal enterprises of six European countries (France, West Germany, Italy, Belgium, Netherlands and Luxemburg). The ECSC fulfils all the functions of an international monopoly, i.e. the distribution of production quotas, the sharing out of markets, the fixing of prices, etc. and helps strengthen the competitive position of its members. Euratom is another association of this kind.

The tendency to develop international state-monopoly associations is seen most clearly in the formation of trade and economic blocs in Europe. On the one hand, the European Economic Community (EEC), usually called the Common Market, was set up, and on the other, the European Free Trade Association (EFTA) or "the Seven". There have now been fundamental changes in the balance of forces between these economic blocs. Two members of EFTA, Britain (the leader of the bloc) and Denmark, and the Republic of Ireland have joined the Common Market, which has meant a significant strengthening of the position of the EEC and the virtual collapse of EFTA.

Along with the redistribution of the sales market, these inter-state organisations pursue far-reaching political, economic, military and strategic goals. In view of the rapid growth of the world socialist system and the broad scale of the national liberation movement, monopoly circles are attempting to consolidate the position of capitalism by means of these organisations. The creation of regional blocs (and of the EEC in particular) played an important role as the economic basis of the aggressive NATO bloc.

Critique of Bourgeois and Reformist Views of the Essence and Role of International Monopolies

From the first appearance of international monopolistic alliances, bourgeois economists have argued that such agreements, expressing the internationalisation of capital, make it possible to establish lasting peace between nations under capitalism. Their views were shared, in their time, by Rudolf Hilferding and Karl Kautsky. Hilferding, for example, stated

that a general cartel which would control all production and thus eliminate crises, would make economic sense, and Kautsky agreed that international agreements between monopolies would lead to replacement of the period of imperialism, with its conflicts and wars, by a peaceful period of "ultra-imperialism", when internationally organised capital would exploit the whole world.

Criticising these theories Lenin wrote: "There is no doubt that the trend of development is *towards* a single world trust absorbing all enterprises without exception and all states without exception. But this development proceeds in such circumstances, at such a pace, through such contradictions, conflicts and upheavals—not only economic but political, national, etc.—that inevitably imperialism will burst and capitalism will grow into its opposite *long before* one world trust materialises, before the 'ultra-imperialist', world-wide amalgamation of national finance capitals takes place."[1]

The international monopolies, through dividing world markets and sources of raw materials between them, cannot eliminate the anarchy of capitalist production, competition, and the deep contradictions engendered by imperialism. "In fact," Lenin emphasised, "it is this combination of antagonistic principles, viz., competition and monopoly, that is the essence of imperialism, it is this that is making for the final crash, i.e., the socialist revolution."[2]

6. TERRITORIAL DIVISION OF THE WORLD BETWEEN IMPERIALIST STATES AND THE STRUGGLE FOR ITS REDIVISION

Monopolists are not satisfied with dividing up the world economically. They also strive for undivided sway over other countries, strengthening their economic dominance by subordinating them both politically and administratively.

As Lenin wrote: "The epoch of the latest stage of capi-

[1] V. I. Lenin, "Preface to N. Bukharin's Pamphlet *Imperialism and the World Economy*", *Collected Works*, Vol. 22, p. 107.

[2] V. I. Lenin, "Materials Relating to the Revision of the Party Programme", *Collected Works*, Vol. 24, p. 465.

talism shows us that certain relations between capitalist associations grow up, *based* on the economic division of the world; while parallel to and in connection with it, certain relations grow up between political alliances, between states, on the basis of the territorial division of the world, of the struggle for colonies, of the 'struggle for spheres of influence'."[1]

Colonies, as subject territories, existed long before imperialism. The colonial empires of certain present-day powers began to take shape as early as the fifteenth and sixteenth centuries. In the epoch of imperialism, however, the issue of colonies has taken on a totally different significance from that under pre-monopoly capitalism. Lenin unmasked the attempts of bourgeois apologists to identify the colonial policies of earlier times with those of modern imperialism.

The fundamental change in colonial policy under imperialism was that the territorial division of the world was completed in this period, and a struggle for its redivision began, and also that the role of colonies had altered significantly compared with the days of pre-monopoly capitalism.

Completion of the Territorial Division of the World and the Struggle for Its Redivision

By the 1870s, Great Britain, Portugal, the Netherlands and France had considerable colonial empires, while other powers had no colonies. At the same time, there were still broad territories in the world that had not yet been seized by the capitalist countries.

From 1876 to 1914, there was rapid annexation of colonies. The largest colonial acquisitions of this period were by Great Britain. She seized two-fifths of the territory and over half the population of all the newly-annexed countries. France stood in second place, having taken possession of two-fifths of the newly-annexed territories, but with a much lower density of population. The other imperialist states (Germany, the USA, Japan and Italy) "bagged" less.

The massive seizure of "free" lands and the complete divi-

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 253.

sion of the world at the turn of the century was not a chance occurrence, but was very closely linked with the establishment of the dominance of capitalist monopolies. It was the drive of the monopolies to strengthen their influence and to ensure their complete sway in the areas where they were exporting commodities, investing their capital and importing raw materials, that gave rise to the scramble for the seizure of colonies and led to completion of the territorial division of the world. As Lenin pointed out, "monopolies are most firmly established when *all* the sources of raw materials are captured by one group, and we have seen with what zeal the international capitalist associations exert every effort to deprive their rivals of all opportunity of competing. . . . Colonial possession alone gives the monopolies complete guarantee against all contingencies in the struggle against competitors, including the case of the adversary wanting to be protected by a law establishing a state monopoly."[1]

Not only known sources of raw materials were seized, but also potential ones, to prevent their being grabbed by a rival. Hence came the inevitable drive of finance capital to extend its economic territory and its territory in general. And, stemming from the dominance of the monopolies, the territorial division of the world itself then led to the formation of a specific type of monopoly, the *colonial monopoly* of a few imperialist countries.

The final or complete division of the world, however, did not exclude the possibility of a redivision. On the contrary, it made a fierce struggle for its redivision inevitable.

By 1914, the two largest colonial powers, Britain and France, held 68 per cent of colonial territory and 86 per cent of the colonial population. At the same time, Germany, Italy and Japan, having arrived late for the division of the world, but having become powerful imperialist states, had far fewer colonies. They demanded "a place in the sun" and a right to colonial plunder through redivision of the world; but that was already only possible by means of war. As a result, the First World War (1914-18) broke out. Defeated in this war, Germany and her allies were stripped of their colonies, which were then redistributed between the victor states.

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 260.

Formation of the Colonial System of Imperialism

The territorial division of the world by the imperialist powers completed the formation of the *colonial system of imperialism*, i.e. the aggregate of the relations by which the millions of people in the colonies and dependent countries were exploited and enslaved by a handful of imperialist states.

In comparison with the period when free competition prevailed, the role of colonies under imperialism both grew and altered significantly. "To the numerous 'old' motives of colonial policy," Lenin pointed out, "finance capital has added the struggle for the sources of raw materials, for the export of capital, for spheres of influence, i.e., for spheres for profitable deals, concessions, monopoly profits and so on, economic territory in general."[1]

In the period of monopoly capitalism, colonial and dependent countries served the metropolitan countries as (1) markets for commodities, (2) sources of raw materials, (3) areas for the investment of capital, (4) sources of non-economic revenue, (5) theatres of military and strategic operations and sources of recruits and reinforcements.[2]

The new conditions taking shape since World War II, resulting from the Soviet Union's victory over German fascism and Japanese imperialism, encouraged a powerful upsurge of the national liberation movement in colonies and dependent countries. As a consequence, not only the defeated capitalist countries lost their colonies, but the victors too, in particular Great Britain and France, began to lose one colony after another, and disintegration of the whole colonial system, which is now approaching completion, set in. The numerous attempts of the imperialists to hold peoples in direct colonial subordination are being defeated. Through the influence of the powerful national liberation struggle, supported by the working class of all countries and the world socialist system, the period of colonialism is finally a thing of the past.

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[1] Ibid., p. 299.
[2] For further details, see Chapter 15.

Formation of the World Capitalist Economic System and Deepening of the Contradictions of Capitalism

The colonial system of imperialism was an important element in the world capitalist economic system.

Formation of the world capitalist economy began long before imperialism. The development of the capitalist world market, even under pre-monopoly capitalism, had led to more countries and nations being drawn into its orbit, which resulted in the internationalisation of bourgeois relations. The economic self-sufficiency of various countries was undermined and gave way to their increasing all-round economic dependence. Under imperialism, the tendency to internationalise economic life became much stronger, and since it took place on the basis of capitalist relations, i.e. represented in fact the nationalisation of capital, the process led not to co-operation between peoples on the principles of equality, but to establishment of the dominance of imperialist countries over most of the peoples of the world. The trend toward economic rapprochement between different countries and peoples of the world, in itself progressive, in practice took place in a purely imperialist manner, through annexation, violent enslavement, oppression and exploitation. International division of labour was forcibly imposed in accordance with the interests of the monopoly bourgeoisie, its enrichment, and consolidation of its dominion over the whole world.

The world capitalist economy is a system of international economic ties and relations, expressing exploitation and enslavement of the peoples of colonies and dependent countries by a handful of imperialist states; the domination of finance capital in all spheres of the economies of capitalist countries; competitive struggle between the monopoly bourgeoisie of various imperialist countries for domination over the world economy; struggle between imperialist countries for redivision of the world. After the emergence of the world capitalist economic system, capitalism's contradictions, far from becoming weaker, developed even further and became even more acute.

To the already existing antagonistic contradictions of the capitalist mode of production the specific contradictions of the world capitalist economy were added, namely, the contradictions between colonies and the metropolitan states, between the imperialist states and the economically underdeveloped countries that had achieved political independence, and between imperialist states themselves that exploit the peoples of the developing countries.

Chapter 12

THE PLACE OF IMPERIALISM IN HISTORY

1. IMPERIALISM AS A SPECIAL STAGE OF CAPITALISM

The Threefold Specific Character of Imperialism

Lenin's description of the monopolistic stage of capitalism was not confined to analysis of its basic economic features. It also included definition of imperialism's place in history, i.e. its place in relation to the entire epoch of capitalism and in relation to the socialist revolution. The historical place of imperialism in relation to capitalism is that *it is the highest and last stage of capitalism.* Lenin's teaching on this is a continuation and development of Marx's doctrine of the inevitability of the revolutionary overthrow of capitalism.

Imperialism arose as a development and direct continuation of the fundamental features of capitalism in general; but capitalism became imperialism only at a specific stage in its development, when certain of its fundamental features began to turn into their opposites.

Lenin noted the extreme sharpening of all the contradictions of the capitalist mode of production under imperialism. "Imperialism," he concluded, "is a specific historical stage of capitalism. Its specific character is three-fold: imperialism is (1) monopoly capitalism; (2) parasitic, or decaying capitalism; (3) moribund capitalism."[1]

Lenin's Critique of Kautsky's Theory of Imperialism

When studying the problems of imperialism, Lenin sharply criticised current reformist theories that were ideologically

[1] V. I. Lenin, "Imperialism and the Split in Socialism", *Collected Works*, Vol. 23, p. 105.

disarming the working class and holding back development of its revolutionary struggle to overthrow the capitalist system. Karl Kautsky, the ideological leader of the Second International, argued that imperialism was the product of highly developed industrial capitalism and that its essence was a drive by industrially developed countries to annex increasingly large agrarian areas. His argument contradicted Marxism–concealed the contradictions of the new stage of capitalism and ignored its fundamental feature, the dominance of monopoly. It followed from Kautsky's theory that imperialism was only a policy that could be changed for another policy. "The essence of the matter," Lenin wrote, "is that Kautsky detaches the politics of imperialism from its economics, speaks of annexations as being a policy 'preferred' by finance capital, and opposes it to another bourgeois policy which, he alleges, is possible on this very same basis of finance capital."[1]

In detaching the politics of imperialism from its economics, Kautsky proved, in fact, to be on the side of reconciliation with imperialism, because to struggle against the aggressive policies of the monopolies without touching the basis of their economic domination was, as Lenin commented, meaningless talk.

Lenin also criticised another reformist theory of Kautsky–that of "ultra-imperialism". Kautsky argued that the development of capitalism would lead to the amalgamation of national capitals, and to the merging of all trusts into a single all-enveloping trust, the formation of which would put a stop to the struggle between the imperialists of different countries and usher in a phase of "ultra-imperialism". Lenin called this theory ultra-nonsense, and emphasised that the idea of international cartels making it possible to hope for peace between states under capitalism was theoretically utterly absurd and, in practice, represented a defence of imperialism, and clouding of the class consciousness of the proletariat.

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[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 270.

Critique of "Pnre Imperialism" and "Organised Capitalism"

A variant of Kautsky's theory was the theory of "pure imperialism", that Bukharin tried to push into the Programme of the Russian Communist Party (Bolsheviks). Its essence was that monopolies had, supposedly, completely reconstructed the whole social economy, and eliminated the spontaneous, anarchic nature of commodity production and the antagonistic contradictions inherent in it. Lenin pointed out that monopoly capitalism was a superstructure on the old capitalism, that a "pure imperialism" not based on capitalism had never existed, did not exist, and would never exist.

The theory of "pure imperialism" reappeared later as the theory of "organised capitalism", proposed by Hilferding and given official approval at the 1927 congress of German Social-Democratic Party. Basing himself on the temporary stabilisation of capitalism of those years, Hilferding argued that capitalism had already become organised in a planned way, that monopolies ensured continuous development of the economy without crises and upheavals, and that a period of eternally flourishing capitalism had arrived. Reality, as we know, soon refuted that right-wing opportunist theory: in 1929, a crisis set in that was the most acute and destructive in the history of capitalism.

Lenin's theses, revealing the essence of imperialism, still serve today as a theoretical weapon for the working class in unmasking the right-wing socialist lackeys of imperialism, who are again trying to revive the theory of "planned" or "organised" capitalism.

2. IMPERIALISM AS MONOPOLY CAPITALISM

Principal Manifestations of Monopoly Capitalism

Lenin distinguished four principal manifestations of monopoly capitalism.

(1) As a result of the concentration of production monopolies become dominant in the production and sale of commodities.

(2) The dominance of monopoly led ultimately to seizure of the major sources of raw materials. The basic branches of production (iron and steel, power, oil-refining, etc.) are the most highly monopolised and their dominant position is ensured by monopoly control of the sources of raw materials.

(3) The concentration and centralisation of banking facilitates establishment of the overall dominance of monopoly. Banks have become the biggest monopolists and the financial oligarchy has established its dominance over the economic and political institutions of present-day bourgeois society.

(4) Monopoly arose out of colonial policy; the era of monopoly possession of colonies and particularly intense struggle for the division and the redivision of the world had arrived.

The development of monopolisation along these lines inevitably led to monopolies subordinating the government apparatus to themselves, merging with it, and using it to preserve and strengthen their dominance in economic and political life. The forces of state and monopoly became united in a single mechanism, acting in the interests of the monopolies.

Exacerbation of the Main Contradiction of Capitalism under Monopoly Domination

The dominance of monopoly enormously intensifies the process of socialisation of production. With increasing concentration of production, the social character of production becomes more pronounced. The monopolies link huge enterprises together, take account of markets and sources of raw materials, and seize technical discoveries and inventions, while the big banks have almost all the money resources of bourgeois countries under their control.

Private capitalist ownership does not, however, give social production a chance to develop as a consciously directed, planned process. The high level of organisation of labour in individual undertakings and within monopolistic associations

exists alongside anarchy of production on the scale of society as a whole.

The enormous wealth created by the labour of millions of people is appropriated by a small group of the biggest monopolists. But in order to develop continuously and without crisis, socialised production requires the elimination of private ownership of the means of production and the establishment of an order in which the results of labour would belong to all the working people.

Thus, the domination of monopolics exacerbates the main contradiction of capitalism to the extreme, i.e. the contradiction between the social character of production and private capitalist appropriation of its results. Under imperialism, the productive forces of society have developed to the point when they can no longer be confined within the framework of capitalist relations of production.

3. IMPERIALISM AS PARASITIC OR DECAYING CAPITALISM

The place of imperialism in history is also defined by its being *parasitic or decaying capitalism.*

Two Trends in Development of the Productive Forces

Lenin made an exhaustive analysis of the decay of capitalism in its monopoly stage. This shows up primarily in the tendency for retarding technical progress. Under free competition, in the pursuit of extra profit, capitalists sought to cut costs of production by using new equipment and technologies. Under imperialism, monopolies have the possibility of obtaining super-profits simply by force of their monopolistic position, which enables them to fix monopoly prices. Economic domination of the market and constant high monopoly profits weaken the stimulus for monopolies to introduce new production technologies and act as a brake on technical progress. Quite often monopolies acquire patents on new inventions not in order to use them in production, but to prevent their competitors from using them.

The tendency toward stagnation under imperialism, however, does not eliminate the tendency toward technological development. Lenin warned against any over-simplified interpretation of the tendency for technical development to be retarded under imperialism. "Certainly," he said, "the possibility of reducing the cost of production and increasing profits by introducing technical improvements operates in the direction of change. But the *tendency* to stagnation and decay, which is characteristic of monopoly, continues to operate, and in some branches of industry, in some countries, for certain periods of time, it gains the upper hand."[1] On the whole, although the productive forces of capitalism develop rapidly, their development is increasingly falling behind the vast opportunities provided by science and technology today.

"The scientific and technical revolution offers mankind unprecedented possibilities to remake Nature, to produce immense material wealth and to multiply man's creative capabilities. These possibilities should serve the general welfare, but capitalism is using the scientific and technical revolution to increase its profits and intensify the exploitation of the working people."[2]

Growth of the Parasitic Stratum of Rentiers. Increase of Militarism

The decay of capitalist society under imperialism is also manifested in growth of parasitic strata of the population and of their revenues. A significant part of the big bourgeoisie make a final break with production. The management of enterprises is transferred increasingly to hired specialists, while the big capitalists themselves live idly on income from securities, shares and state loan bonds and become capitalist rentiers.

The amount of securities in circulation increases from year to year, so that the amount of revenues appropriated

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 276.

[2] *International Meeting of Communist and Workers' Parties, Moscow 1969*, Prague, 1969, p. 19.

by the parasitic stratum of rentiers in the form of dividends and interest also rises.

The detachment of capitalist rentiers from production has become even more pronounced through the export of capital. Under imperialism, not only are the individual rich coming to be rentiers, but whole countries that export capital and live on exploiting backward countries and colonies. They become rentier states. In addition, the imperialist countries receive immense profits as a result of non-equivalent trade with economically underdeveloped countries.

The monopolistic bourgeoisie, however, not only leads a parasitic life itself, but also diverts a growing part of the population from productive work.

Under imperialism, the number of people employed in the army, the police and the bureaucratic state apparatus, i.e. primarily in the organs of repression and compulsion of the working people, grows rapidly. Non-productive costs connected with the anarchy of production and increasingly fierce competition also grow; there is a significant rise in expenditure on advertising, unjustified transport, and the like.

Despite the absolute increase in the numbers employed in the non-productive sphere, the threat of unemployment, far from shrinking, actually grows, which is the clearest indication of decay and evidence of capitalism's incapacity to make use of labour power, the main productive force of society.

Decay under imperialism is seen in its most acute form in the unchecked growth of militarism and the frenzied arms race characteristic of the present day.

Corruption of the Upper Strata of the Working Class and Formation of a Lahour Aristocracy

An important sign of decay and parasitism under imperialism is the corruption of the upper strata of the working class, which became an economic possibility through the high monopoly profits received by the imperialists. The imperialist bourgeoisie gives handouts to the upper strata of the working class by intensifying exploitation of the vast

majority of the workers in their own countries, and by reaping colonial super-profits.

As Lenin noted, the representatives of these upper strata act as veritable agents of the bourgeoisie in the working-class movement–as labour class lieutenants of the capitalists. They have a certain influence on the masses, and by splitting the working-class movement hinder the unity of all progressive forces in the struggle against imperialist oppression. It is this milieu, along with the petty bourgeoisie, that provides the leading personnel of right-wing socialist parties and yellow trade unions. A sort of labour aristocracy thus takes shape within the working class, and a labour bureaucracy, a major social support of the bourgeoisie.

The nurtured upper strata of the working class should not, however, be confused with workers receiving relatively high wages. For a considerable proportion of highly paid workers, the level of their wages is the result of long class struggle, and not of artificial privileges created by monopolists. Skilled workers play an important role in the revolutionary movement in present-day conditions.

The Turn toward Reaction in Social and Political Life

The decay and parasitism of imperialism is also to be seen in its inherent turn toward reaction in all spheres of social and political life. While the economic essence of imperialism consists in replacing free competition with the domination of monopolies, its political essence is the turn from bourgeois democracy to political reaction. As Lenin wrote in "A Caricature of Marxism and Imperialist Economism": "Both in foreign and home policy imperialism strives towards violations of democracy, towards reaction. In this sense, imperialism is indisputably the 'negation' of *democracy in general*, of *all democracy*. . . ."[1] Monopoly capital strives to wipe out the democratic rights won by the workers through the persistent struggle of generations. The increase of political reaction under imperialism found expression in fascism.

[1] V. I. Lenin, *Collected Works*, Vol. 23, p. 43.

The domination of monopoly also brought with it unbridled reaction in ideology and culture.

The parasitism and decay of monopoly capitalism is evidence that capitalism has exhausted itself as a mode of production and that another, progressive social system, the communist mode of production, must come in its place.

4. IMPERIALISM AS MORIBUND CAPITALISM AND THE EVE OF THE SOCIALIST REVOLUTION

From deep analysis of the monopoly stage of capitalism, Lenin drew the conclusion that imperialism is moribund capitalism. Capitalism will not disappear of its own accord or automatically. It is liquidated as a result of the proletarian revolution; therefore, while defining imperialism as the last stage of capitalism, Lenin at the same time said that it was the eve of the socialist revolution.

Exacerbation of Contradictions and the Inevitability of Socialist Revolution

In the era of imperialism, the contradictions between labour and capital, between the oppressed peoples of colonies and dependent countries, on the one hand, and the monopolistic bourgeoisie, on the other, and between the imperialist states themselves all become far more acute, and their intensification leads capitalism to the proletarian revolution.

As a result of the Great October Socialist Revolution, a new contradiction arose alongside the old ones, that between moribund capitalism and the newly-emerging progressive social system, socialism. The victory of the socialist revolution in a number of countries in Europe, Asia and America, has given rise to the major contradiction of modern times, that between the world capitalist system and the world socialist system. This contradiction determines the character and distinctive features of all social phenomena today, in the period of the transition from capitalism to socialism.

The victory of the socialist revolution in Russia and in other countries and the formation of the world socialist sys-

tem is absolute confirmation of Lenin's conclusion that capitalism was dying. The death of capitalism is a result of extreme intensification of all the contradictions inherent in capitalism, and is an objective historical necessity. Underlying it is the lack of correspondence between the obsolete production relations of present-day capitalism and the emerging productive forces that are becoming social in nature, which runs counter to the needs of further social development and the basic interests of the majority of humanity. "The course of social development," it was stated at the International Meeting of Communist and Workers' Parties in 1969, "shows that imperialism comes into conflict with the vital interests of workers by hand and brain, of different social strata, peoples and nations. As a result, growing masses of working people, social movements and entire peoples are rising against imperialism."[1]

The Law of the Uneven Economic and Political Development of Capitalism

Lenin's theoretical study of monopoly capitalism enabled him to reveal the *law of the uneven economic and political development of capitalism* in the epoch of imperialism. This discovery was the basis of his teaching on the possibility of socialism triumphing first in a few countries, or even in one country alone.

By uneven economic development is meant that capitalist enterprises, industries and countries have different rates of growth of production and national income.

Economic development was also uneven in pre-monopoly days. The dominance of monopolies not only intensified it but also led to a fundamental qualitative change in its nature. Instead of being a smooth evolutionary flow, the unevenness has become spasmodic, which resulted, and still does, in sharp conflicts and contradictions between imperialist powers.

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[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 21.

This is because countries that set out late along the road of capitalist development and utilise the ready results of technical progress not only have the opportunity of catching up with older capitalist countries but also have the chance of overtaking them rapidly in development. The spasmodic nature of the development of capitalist countries also becomes more pronounced as a result of the export of capital, economic crises and wars, particularly world wars.

Since the world was already divided up between the imperialist powers and no free land remained for unfettered extension of their spheres of influence, it could only be redivided by military force. Under these conditions, the unevenness of the development of individual countries gives rise to imperialist wars to redivide the world, simply because it constantly leads to a change in the balance of forces between imperialist countries, so that the distribution of colonies, sources of raw materials and spheres for capital investment ceases to correspond to the new balance of power. The unevenness of the economic development of individual countries under imperialism is thus the economic foundation for imperialist wars.

The balance of economic power between capitalist countries is also in a state of flux today, as a result of the operation of this law. The economic and political struggle between imperialist powers is becoming more and more fierce, so that the economic foundation for imperialist wars still continues to exist.

But there are now powerful forces opposing the aggressive aspirations of imperialism. "A new world war can be averted by the combined efforts of the socialist countries, the international working class, the national liberation movement, all peace-loving countries, public organisations and mass movements," the Communist and Workers' parties of the world affirm.[1]

The unevenness of the development of capitalism under monopoly domination is the objective basis for the possibility of breaking the chain of imperialism at one of its weakest links and for victory of the socialist revolution, initially

[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 31.

in a few countries or even in one. "Uneven economic and political development is an absolute law of capitalism," Lenin wrote in his article "On the Slogan for a United States of Europe". "Hence, the victory of socialism is possible first in several or even in one capitalist country alone."[1] This conclusion has been of decisive significance for the revolutionary struggle of the proletariat in the period of imperialism.

Unevenness of political development means that the political preconditions for the proletarian revolution do not arise or mature in all countries simultaneously. These premises include, above all, the sharpness of class contradictions and the degree of development of the class struggle, i.e. the level of class consciousness, political organisation and revolutionary decisiveness of the proletariat; the solidarity of the non-proletarian mass of working people with the proletariat; and the leading role of the Marxist-Leninist party in the revolutionary movement.

The unevenness of political development linked with uneven economic development is not simply a consequence and reflection of the latter, but is of great independent significance. The sharpness of class contradictions and the development of the revolutionary movement of the proletariat by no means depend solely on the degree of capitalist development in any particular country. Class contradictions may become more acute and the organisation and revolutionary consciousness of the proletariat more developed in a country that is not at the forefront, as far as the development of capitalism is concerned. That was the case, for example, in Russia and in a number of other countries where the socialist revolution has since triumphed.

But however acute the economic contradictions of capitalism are, they never themselves lead automaticaly to its downfall. They only make the overthrow of capitalism a possibility. In order actually to overthrow capitalism, political preconditions of revolution, which mature at different times in different countries, are also essential, that is to say, a revolutionary situation is necessary. The revolution triumphs in the weakest links in the chain of world capitalism, in which the necessary objective and subjective precondi-

[1] V. I. Lenin, *Collected Works*, Vol. 21, p. 342.

tions have matured. "Lenin teaches that the decisive precondition for the success of the revolution is the workers' readiness and ability for revolutionary activity, their consciousness, organisation and experience in the struggle."[1]

Lenin's theory of socialist revolution has been of tremendous significance in unleashing the revolutionary initiative of the proletariat in individual countries.

At the same time, it follows from his theory of the unevenness of the development of capitalism that the replacement of capitalism by socialism cannot be a single act once and for all. It takes place over a whole historical period as more and more countries break away from the capitalist system, a period of transition from capitalism to socialism throughout the whole world; and, during this period, the coexistence of states with different social systems is inevitable.

In defining the place of imperialism in history, Lenin also laid the foundations of the theory of the general crisis of capitalism.

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[1] *On the Centenary of the Birth of V. I. Lenin*, p. 16.

B. THE CRISIS OF WORLD CAPITALISM

Chapter 13

THE ESSENCE OF THE GENERAL CRISIS OF CAPITALISM. THE SPLITTING OF THE WORLD INTO TWO SOCIO-ECONOMIC SYSTEMS AND THE STRUGGLE BETWEEN THEM

1. THE EMERGENCE AND ESSENCE OF THE GENERAL CRISIS OF CAPITALISM

Mankind's transition to socialism occupies a certain historical period, during which more and more countries break away from the world capitalist system and set out on the road of building socialism. As the Programme of the CPSU says: "Our epoch, whose main content is the transition from capitalism to socialism, is epoch of struggle between the two opposing social systems, an epoch of socialist and national-liberation revolutions ... an epoch of the transition of more and more peoples to the socialist path, of the triumph of socialism and communism on a world-wide scale."[1]

In those countries where the proletarian revolution has been victorious, the building of socialism and communism is now going successfully ahead. In the countries where capitalism still exists, it continues to disintegrate, while the forces capable of smashing it by means of a revolution are growing in strength. The capitalist socio-economic formation has entered the period of its decline and fall, i.e. the historical phase of its general crisis resulting from the development of its contradictions in the imperialist stage.

Thus, the *general crisis of capitalism is a world historical process of the collapse of the capitalist mode of production and its revolutionary replacement by socialism.*

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[1] *The Road to Communism*, p. 449.

Basic Features of the General Crisis of Capitalism

The first and main feature of the general crisis of capitalism is that the world has split into two systems, the developing socialist system and the moribund capitalist one, a split begun by the Great October Socialist Revolution.

With the rise of the socialist economic system in Russia, the capitalist system ceased to be the sole one prevailing in the world. The rise of socialism meant the emergence of production relations of a new type, corresponding to the nature of contemporary productive forces. Between capitalism and socialism there is an uncompromising struggle during which the balance of power is constantly shifting in favour of the latter. In the second stage of the general crisis of capitalism, socialism became a world system that is now exerting an ever increasing effect on all spheres of life in contemporary society. "Development of the socialist countries, their greater might, and the greater beneficial influence of their international policy–this is now the main direction in mankind's social progress."[1]

The second feature of the general crisis of capitalism is the crisis of imperialism's colonial system, and its final downfall, as a result of the strengthening of the national liberation movement. The struggle against neocolonialism proceeds. The newly-free countries are fighting to end their economic dependence on the imperialist powers, and some of them have taken a non-capitalist path of development.

The third characteristic of the general crisis of capitalism is that world imperialism is becoming ever weaker and its contradictions more acute. Its state-monopoly character is becoming more pronounced, the instability and stagnation of the capitalist economy is growing, and the class antagonisms hastening its fall are becoming sharper.

The general crisis has not simply gripped the capitalist economy, but is becoming increasingly acute in bourgeois politics and ideology, morality and spiritual culture.

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[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 33.

As L. I. Brezhnev said at the Conference of European Communist and Workers' Parties in Berlin in June 1976: "This crisis cannot be ended by revitalising the imperialists' military-political blocs, or by the arms race, or by economic integration of the monopolies, or by apparent social reforms, or by repression."

The Split of the World into Two Systems and the Struggle between Them. Peaceful Coexistence— a Form of Class Struggle

The October Revolution laid the basis for ridding mankind of the exploitative system and bringing the ideas of scientific communism to life, and has had the most profound effect on the whole subsequent course of world history. It opened the era of the general revolutionary resurgence of the world, the period of the transition from capitalism to socialism.

While bourgeois revolutions simply replaced one exploitative system by another, the Great October Socialist Revolution abolished all exploitation of man by man, put an end to poverty and unemployment, and created broad scope for the all-round harmonious development of human society. It laid the foundation of a new civilisation in man's history. The best people of all ages and nations have long dreamed of such a civilisation but only Marxism provided the key to making it reality. Marx and Engels transformed socialism from a utopia into a science.

The ideas of scientific socialism gained wide acceptance in Russia, but that did not happen at once or by chance. "Russia achieved Marxism–the only correct revolutionary theory," Lenin wrote, "through the *agony* she experienced in the course of half a century of unparalleled torment and sacrifice, of unparalleled revolutionary heroism, incredible energy, devoted searching, study, practical trial, disappointment, verification, and comparison with European experience."[1]

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[1] V. I. Lenin, "'Left-Wing' Communism–an Infantile Disorder", *Collected Works*, Vol. 31, pp. 25-26.

Thanks to the heroic efforts of Lenin and the revolutionary party he created, the ideas of Marxism penetrated the consciousness of the working class and of broad masses of the working people of Russia and became the immense force that led to victory of the Great October Socialist Revolution.

The Soviet state born of the October Revolution immediately became an important factor, affecting all aspects of mankind's life. "In the present world situation following the imperialist war," Lenin said in 1920, "reciprocal relations between peoples and the world political system as a whole are determined by the struggle waged by a small group of imperialist nations against the Soviet movement and the Soviet states headed by Soviet Russia. Unless we bear that in mind, we shall not be able to pose a single national or colonial problem correctly, even if it concerns a most outlying part of the world. The Communist parties, in civilised and backward countries alike, can pose and solve political problems correctly only if they make this postulate their starting-point."[1]

The victory of the Great October Socialist Revolution in Russia and of socialist revolutions in other countries and the building of socialism and communism in the countries of the world socialist system have been and are an important factor in the development of the international working-class movement, the national liberation struggle, and the struggle of the peoples for peace and socialism. As the Central Committee of the CPSU stated in 1967: "The world historical significance of the Great October Socialist Revolution is that it indicated the road to, and revealed the forms and methods of revolutionary transformation, which have acquired an international character. Its experience is an inexhaustible treasury of the theory and practice of revolutionary struggle, a model of scientific strategy and tactics."[2]

The problem of relations between the capitalist and socialist systems arose in the very first days of the Soviet state. In this field there are two objective, but opposing trends.

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[1] V. I. Lenin, "The Second Congress of the Communist International", *Collected Works*, Vol. 31, p. 241.

[2] *On the 50th Anniversary of the October Revolution*, Moscow, 1967, p. 9 (in Russian).

The first trend is that the bourgeois world, by virtue of its class nature, strives to destroy the socialist system. The most reactionary circles of finance capital take the lead in this and the tendency will continue as long as capitalism exists.

"The spearhead of the aggressive strategy of imperialism," the International Meeting of Communist and Workers' Parties in 1969 noted, "continues to be aimed first and foremost against the socialist countries. Imperialism does not forego open armed struggle against socialism."[1]

The second trend is for capitalist states to be interested in establishing and developing economie relations with socialist countries. "The economic position of those who blockaded us has proved to be vulnerable," Lenin said at the Ninth All-Russia Congress of Soviets in 1921. "There is a force more powerful than the wishes, the will and the decisions of any of the governments or classes that are hostile to us. That force is world general economic relations, which compel them to make contact with us."[2]

The socialist states make use of this objective trend to pursue a policy of peaceful coexistence. Socialism excludes domination and coercion of one nation by another, and the socialist states build their relations with other states on the principles of respect for the sovereign rights of all peoples and all nations, big or small. Peace is essential for the working people in building socialism, and can only be ensured by peaceful coexistence of the two systems.

The opponents of Marxism argue that the socialist countries need war with imperialist states, as this, they say, would speed up victory of the revolution in capitalist countries. This is nothing but slander against the socialist countries and socialism. "Perhaps," Lenin wrote in combating Left-wing Communists, "the authors [of the resolution of Left-wing Communists–*Ed.*] believe that the interests of the world revolution require that it should be *given a push*, and that such a push can be given only by war, never by peace.... Such a 'theory' would be completely at variance with

[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 12.

[2] V. I. Lenin, "Ninth All-Russia Congress of Soviets", *Collected Works*, Vol. 33, p. 155.

Marxism which has always been opposed to 'pushing' revolutions, which develop with the growing acuteness of the class antagonisms that engender revolutions."[1]

"Left" revisionists try to represent the policy of peaceful coexistence and the struggle for relaxation of international tension followed by socialist countries as rejection of the class struggle, as a policy of social and economic rapprochement of the two systems, and as an obstacle to the development of the national liberation movement. Detente, however, as was noted at the 25th Congress of the CPSU, "does not in the slightest abolish, nor can it abolish or alter, the laws of the class struggle. No one should expect that because of the detente Communists will reconcile themselves with capitalist exploitation or that monopolists will become followers of the revolution."[2] In reality, in social terms, peaceful coexistence is one of the forms of the proletariat's class struggle against the bourgeoisie, and a way of solving the problem of who will win in the world today.

The policy of peaceful coexistence does not contradict the right of any oppressed people to fight for its liberation by any means it considers necessary–armed or peaceful; and it has nothing in common with support of reactionary regimes, as "leftist" revisionists allege.

This policy does not mean a weakening of the ideological struggle against imperialism. Being directed against the instigators of wars, reactionaries and arms monopolies, it is in the general interests of the revolutionary struggle against all forms of oppression and exploitation, facilitates the strengthening of friendship between nations, and the development of fruitful economic, scientific, technical and other forms of co-operation between countries with different social systems in the interests of social progress.

At the same time, it blocks imperialism's attempts to overcome its internal contradictions by creating international tension and kindling hotbeds of military conflict.

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[1] V. I. Lenin, "Strange and Monstrous", *Collected Works*, Vol. 27, pp. 71-72.

[2] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 39.

The peace policy of the Soviet Union and the whole course of events, L. I. Brezhnev has said, are gradually causing the capitalist world to recognise the necessity of dealing with the socialist states on the basis of peaceful coexistence. The principle of peaceful coexistence has become the true force of international development. The 25th Congress of the CPSU, having noted the successful implementation of the Peace Programme worked out by the 24th Congress, advanced new tasks for furthering and developing it. "Struggle to consolidate the principles of peaceful coexistence, to assure lasting peace, to reduce, and in a longer term to eliminate, the danger of another world war has been, and remains, the main element of our policy towards the capitalist states."[1]

2. THE STAGES OF THE GENERAL CRISIS OF CAPITALISM

Since its inception, the general crisis of capitalism has passed through two stages and entered a third stage in the middle of the 1950s.

The First Stage

The first stage of the general crisis of capitalism began with the First World War and the October Revolution in Russia.

Even in this stage, although the Soviet Union was under constant threat of intervention from the surrounding capitalist world, the advantages of the socialist system, in economic competition with capitalism, were clearly visible.

By the end of the 1930s, the USSR had been transformed from a backward agrarian country into a highly developed industrial and agrarian power, with all vitally important branches of modern industry at its disposal.

Industrial production in the USSR, which in 1924-25 was a little more than half its pre-war level, by 1940 had increased nearly eightfold compared with 1913, and the

[1] Ibid., p. 20.

output of heavy industry nearly twelvefold. At the same time, industrial production increased by 91 per cent, compared with 1913, in the USA, by 21 per cent in Great Britain and by 11 per cent in France. The share of socialism in world industrial output had risen from 3 per cent in 1917 to 10 per cent by 1937.

The crisis of the colonial system of imperialism began in the first stage of the general crisis of capitalism. The necessary objective and subjective preconditions for struggle for independence had ripened in the colonies and semi-colonies. Their own industry had developed, albeit one-sided and deformed, national capital had accumulated, and with it a national bourgeoisie had taken shape. The interests of the national bourgeoisie were frequently at variance with those of foreign capital, and the bourgeoisie began, though not always resolutely or consistently, to fight against it. The development of capitalism in the colonies was also accompanied by a growth of the numbers and organisation of the national proletariat, the most consistent fighter against colonialism. The proletariat roused and drew the working masses into the struggle, above all the peasantry.

The victory of the socialist revolution in Russia, with its many nationalities, and the consequent entry of the Mongolian People's Republic onto the road to socialism clearly showed to the peoples of colonial countries the prospect of liberation from imperialist oppression and of solution of the national problem on the principle of equality of nations and unselfish mutual assistance, which helped to strengthen the national liberation struggle in the colonies.

"After the victory of the October Revolution, a crisis of the colonial system of imperialism set in. The Republic of Soviets, which had in practice combined the socialist revolution and the national liberation movement, became an example and reliable support for the liberation struggles of other peoples."[1]

The most distinctive feature of the national liberation movement in that period was that the oppressed peoples not only rose up spontaneously against colonialism, but also

[1] *On the 50th Anniversary of the October Revolution*, p. 55 (in Russian).

became increasingly aware of the need for and possibility of organised struggle. National uprisings took place in Indo-China and the Philippines and a stubborn anti-imperialist and anti-feudal war developed in China.

The first stage of the general crisis of capitalism was characterised by further intensification of all the contradictions of capitalism. The inability of the bourgeoisie to make full use of the productive forces was revealed, which manifested itself above all in such new phenomena as chronic narrowness of the home market giving rise in turn to chronic underutilisation of productive capacities and the rise and growth of a permanent army of the unemployed.

The instability of the capitalist economy became more pronounced. In 1921, soon after World War I, the capitalist world suffered an industrial economic crisis. In 1920, an agricultural crisis set in that continued right up to the outbreak of World War II. The relative and partial stabilisation of capitalism in the mid-1920s did not last long. In 1929, the worst and most destructive world economic crisis in the history of capitalism set in, followed by an extremely long depression. No significant boom succeeded it, as capitalism suffered a new economic crisis in 1937, without regaining the pre-crisis level of 1928.

The aggravation of the contradictions of monopoly capitalism was accompanied by its development into state-monopoly capitalism, and a further attack by finance capital on the working masses, the advent of fascism in a number of bourgeois states.

As a consequence of the unevenness of economic development, the crisis of the capitalist system of world economy became more acute. The monopolies in Germany, Italy and Japan took the road of militarising their economies and of preparing for a new imperialist war for redivision of the world. Ultimately the development of the crisis of the world capitalist economy led to the Second World War.

The Second Stage of the General Crisis

During the Second World War and the socialist revolutions in a number of European and Asian countries, the

second stage of the general crisis of capitalism developed.

The victory of the Soviet people in World War II and the defeat of the forces of fascism and reaction in Germany, Italy and Japan created favourable conditions for the peoples of a number of countries in Europe and Asia to fight successfully against German and Japanese occupation and for the triumph of the democratic forces there. The revolutionary transformation of the world, begun by the October Revolution, was continued as a result of the victories of socialist revolutions in other countries. *Socialism broke out of capitalist encirclement and became a world system,* which was the greatest historical event since the victory of the October Revolution. The share of the socialist countries in the population of the world rose from 9 per cent in 1937 to 35 per cent in 1955, and in world industrial output from 10 per cent to 27 per cent.

The economies of the socialist countries were characterised in this period by high rates of growth of industrial production, national income and other economic indices.

The victory of the Soviet Union in World War II created favourable conditions for successful development of the national liberation struggle and the liquidation of colonial regimes, and encouraged break-up of the colonial system of imperialism. In China, North Vietnam and North Korea, socialist revolutions took place and the peoples of these countries broke away from the world capitalist system. Several other newly-free countries ceased to be reserves of imperialism and their peoples took the course of anti-imperialist struggle, for independent economic development.

Imperialism, however, American imperialism in particular, resorted to new forms of colonialism, to neocolonialism, entangling a number of developing countries in its web.

The second stage of the general crisis of capitalism was characterised by the growing instability of the capitalist economy. Crises became more frequent in the main country of world imperialism, the USA, which suffered three crises in 1948, 1953 and 1957. In 1948, capitalist agriculture entered a new period of extended crisis.

The sharpening of all the contradictions of the capitalist

system speeded up the growth of monopoly capitalism in the developed imperialist countries into state-monopoly capitalism.

The Third Stage of the General Crisis of Capitalism

In the mid-1950s, a new, *third stage of the general crisis of capitalism* began. It was not the result of world war, as were the previous stages, but developed in a period of relatively peaceful coexistence and competition between the two systems, when the peace forces were struggling persistently for universal peace. This again gives the lie to the bourgeois ideologists who claim that the socialist world links the fall of capitalism only with wars, in which it is allegedly interested as a means of liquidating capitalism and strengthening the socialist order.

Marxism-Leninism proceeds from the idea that the development and deepening of the general crisis of capitalism are primarily the result of exacerbation of the internal contradictions of the capitalist mode of production.

The following description of the third stage of the general crisis of capitalism is given in the Programme of the Communist Party of the Soviet Union: "The break-away from capitalism of more and more countries; the weakening of imperialist positions in the economic competition with socialism; the break-up of the imperialist colonial system; the intensification of imperialist contradictions with the development of state-monopoly capitalism and the growth of militarism; the mounting internal instability and decay of capitalist economy evidenced by the increasing inability of capitalism to make full use of the productive forces (low rates of production growth, periodic crises, continuous undercapacity operation of production plant, and chronic unemployment); the mounting struggle between labour and capital; an acute intensification of contradictions within the world capitalist economy; an unprecedented growth of political reaction in all spheres, rejection of bourgeois freedoms and establishment of fascist and despotic regimes in a number of countries; and the profound crisis of bourgeois policy and ideol-

ogy—all these are manifestations of the *general crisis of capitalism.*"[1]

Events have shown the truth of this. The 24th Congress of the CPSU paid much attention to analysing present-day imperialism and the third stage of the general crisis of capitalism, and its resolution noted that the distinctive features of modern capitalism can largely be explained by the fact that it is adapting itself to the new situation in the world, above all to the conditions of the struggle between the two systems and the requirements of the scientific and technical revolution. "The attempts of capitalism to adapt itself to the new conditions," it said, "do not lead to its stabilisation as a social system. The general crisis of capitalism continues to deepen."[2] The events of recent years have fully confirmed this.

What are the new events in the world, what are the qualitative changes in the development of the contradictions of capitalism that are evidence of the deepening of its general crisis?

(1) The balance of forces between the two competing world systems has changed fundamentally in favour of socialism, at the expense of capitalism, and there has been a steady weakening in imperialism's position in economic competition with socialism, and a further increase in the strength of the world socialist system.

The world socialist system is exerting an increasingly decisive influence on social development. This does not mean, of course, that solution of all the concrete problems facing mankind depends solely on the efforts of the world socialist system. Dangerous foci of international tension continue to exist, and the opposition of the forces of imperialism to the easing of international tension has not yet been overcome. Fierce class struggle against the forces of imperialism continues both on the international plane and within capitalist countries. Socialism, however, is constantly gaining new victories. Fundamental changes have taken place in Soviet society which, as L. I. Brezhnev has noted, "have enabled our Party to draw the important theoretical and political conclu-

[1] *The Road to Communism*, pp. 470-71.
[2] *24th Congress of the CPSU*, Moscow, 1971, p. 214.

sion that a developed socialist society has been built in the Soviet Union by the selfless labour of Soviet people under the leadership of Lenin's Party".[1] The peoples of other socialist countries are also advancing successfully towards solution of this task.

The further development of socialist integration is also evidence of the qualitatively new stage in the development of the world socialist system and the strengthening of its position in economic competition with capitalism.

Implementation of the Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration of the Member Countries of CMEA, approved at the Council's 25th session, is a major contribution to the victory of socialism over capitalism.

Strengthening of the position of socialism is also to be seen in the expansion of the world socialist system during the third stage of the general crisis of capitalism with the addition of yet another socialist republic–Cuba. The triumph of the Cuban revolution and the successful advance of that country along the road of building socialism marked the beginning of a new stage in the history of the American continent and has raised the prestige of socialism throughout the world.

This gave L. I. Brezhnev grounds to say, at the 25th Congress of the CPSU: "No impartial person can deny that the socialist countries' influence on world affairs is becoming ever stronger and deeper."[2]

(2) The third stage and deepening of the general crisis of capitalism has been characterised by a new and powerful rise of the national liberation movement since the end of the 1950s and the beginning of the 1960s, as a result of which the decline of the imperialist colonial system has been followed by its overthrow everywhere: the colonial empires of Great Britain, France, the Netherlands, and now Portugal, are breaking up.

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[1] L. I. Brezhnev, *The 50th Anniversary of the Union of Soviet Socialist Republics*, Moscow. 1973, p. 83.

[2] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 8.

The national liberation movement is increasingly taking on an anti-capitalist orientation. "The great Lenin's prediction that the peoples of the colonies and dependent countries, starting with a struggle for national liberation, would go on to fight against the very foundations of the system of exploitation is coming true," it was noted at the 24th Congress of the CPSU. "And this, of course, is a heavy blow at the positions of capitalism as a whole, as a world social system."[1]

In the third stage of the general crisis of capitalism a number of newly-free countries have taken the road of non-capitalist development. These countries are orienting themselves towards the construction of socialism in the future, and have become the front line of the national liberation movement today. A real possibility has opened up for countries that have gained their freedom to come to socialism, bypassing capitalism.

(3) The present stage of the general crisis is characterised by further strengthening of the state-monopoly nature of modern capitalism and intensification of all its economic and social contradictions.

The capitalist economy has become even more unstable. In the third stage of the general crisis the capitalist world experienced two deep world economic crises between 1957 and 1961, 1969 and 1971. The new crisis of overproduction that developed in 1974-75 has proved to be the worst and deepest since the beginning of the 1930s, and has affected all the main centres of the world capitalist economy and all spheres of life in capitalist society. It has been interwoven with the crisis of the capitalist monetary and financial system, and the fuel and raw materials crises, and is accompanied by galloping inflation and a sharp deterioration in the condition of the workers. The unevenness of development has become more pronounced, which has led to extreme sharpening of inter-imperialist contradictions and to the formation of three imperialist centres competing among themselves (the USA, the Common Market and Japan).

The decay of imperialism is deepening and is manifested especially in the unprecedented growth of militarisation and

[1] *24th Congress of the CPSU*, p. 25.

intensification of monopoly exploitation and oppression, not only of the working class but of all non-monopolistic strata of the nation. Social contradictions have become acute in the extreme and the class struggle threatens the existence of capitalism as a whole, as a social system.

As was noted at the 25th Congress of the CPSU, "it is farthest from the Communists' minds to predict an 'automatic collapse' of capitalism. It still has considerable reserves. Yet the developments of recent years forcefully confirm that capitalism is a society without a future."[1]

(4) The present stage of the general crisis of capitalism is characterised by a further decline in bourgeois politics and ideology. The internal policies of the modern bourgeois state are becoming more and more reactionary and anti-popular. The ideologists of capitalism are unable to come up with any ideas that can stand up against the ideals of socialism and inspire people to implement them in daily life. This is why bourgeois ideology, unable to explain the growing contradictions of capitalism, resorts increasingly to bare-faced anti-communism.

The foreign policies of imperialism are also in acute crisis. A clear indication of this is more than ten years of criminal aggression in Vietnam, which ended in defeat of the aggressor. Evidence of the crisis of bourgeois policies is the sense of outrage of all world opinion at reactionary imperialist circles' support of Israel's aggression in the Middle East, and the collapse of attempts to establish an order in newly-free Angola to suit the imperialists. The crisis of bourgeois policy stands out particularly clearly against the background of successful implementation of the Peace Programme adopted by the 24th Congress of the CPSU.

3. THE STRUGGLE BETWEEN THE TWO OPPOSING SOCIO-ECONOMIC SYSTEMS AND THE DEEPENING OF THE GENERAL CRISIS OF CAPITALISM

The main feature of the third stage of the general crisis of capitalism is that the world socialist system, in strengthening

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 34.

its economic power, is fighting successfully for victory over capitalism in the most important sphere of the life of human society, i.e. material production.

Lenin foresaw that the countries of victorious socialism would have the greatest effect on the world revolution through their economic construction.

"We are now exercising our main influence on the international revolution through our economic policy," he said in his closing speech to the Tenth All-Russia Conference of the RCP(B) in 1921. "The struggle in this field has now become global. Once we solve this problem, we shall have certainly and finally won on an international scale. That is why for us questions of economic development become of absolutely exceptional importance."[1] In today's conditions the perspicacity of Lenin's forecast was confirmed by the International Meeting of Communist and Workers' Parties in 1969 which stated that "the contribution of the world socialist system to the common cause of the anti-imperialist forces is determined primarily by its growing economic potential".[2]

The world socialist system still has no absolute prevalence in world industrial output, but its share is increasing year by year. While the socialist countries produced less than 20 per cent of world industrial output in 1950, they produced more than 40 per cent in 1975, CMEA countries accounting for around a third of world production. Comparison of the strongest powers of the world systems, the USSR and the USA, shows that the Soviet economy has achieved tremendous success in competition with the US economy. In 1913, the industrial production of tsarist Russia was only 12.5 per cent that of the USA. In 1975, the volume of industrial output in the USSR was already more than 80 per cent of the US level. The USSR has taken first place in the world in the extraction of oil, coal, and iron ore, in the smelting of pig iron and steel, in the production of fertilisers, diesel and electric locomotives, tractors, cement, prefabricated reinforced concrete modules, woollens, leather footwear, sugar, animal fats, etc. And all this, despite the enormous losses it suffered

[1] V. I. Lenin, *Collected Works*, Vol. 32, p. 437.

[2] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 22.

during the two world wars, while the economy of the USA, far from suffering as a result of the wars, actually grew extraordinarily rapidly during these periods.

The socialist world left the capitalist economic system behind long ago in terms of the rate of growth of industrial production. In the quarter of a century from 1950 to 1975, the total volume of the socialist countries' industrial production rose elevenfold or 1,000 per cent, while the corresponding figure for the developed capitalist countries was 210 per cent. In 1975, industrial production in CMEA countries increased by 8.5 per cent, while it fell by more than 8 per cent in the six largest capitalist countries. As the 25th Congress of the CPSU noted: "The socialist community has now become the world's most dynamic economic force. In the past five years the industry of its member countries grew four times as swiftly as that of the developed capitalist states. In 1975 the industrial output of the countries of our community was more than double that of the Common Market countries."[1]

An important indicator of economic development is the level of labour productivity. According to this index, the countries of the world socialist system are still behind the highly developed capitalist countries. Labour productivity in the industry of the USSR, for example, was 55 per cent of the American level in 1975 and in agriculture was even lower. But the rate of growth of labour productivity in the USSR now considerably exceeds that in the USA; over the period 1951-75, the mean annual rate of increase in the labour productivity in the USSR's industry was 6.2 per cent, while it was 3.2 per cent in the USA.

The most general index of economic growth is the increase in national income. In volume of national income per capita, the socialist countries are still behind the mostly developed capitalist countries. The national income of the USSR, for example, was somewhat over 66 per cent of the US level in 1975. In terms of rate of growth of national income, however, the socialist countries far outstrip the developed

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy, 25th Congress of the CPSU*, p. 12.

capitalist countries. Its average annual increment was 8.1 per cent in the USSR in 1951-75, and only 3.1 per cent in the USA.

With every passing year, socialism is strengthening its position in the main fields of scientific and technical progress. New natural sources of energy are being explored, nuclear power stations are being built, research is being carried out into automatic and telemechanic systems and new polymers with pre-set characteristics are being introduced into production. The USSR is achieving great successes in the exploration and mastery of space.

"The swift economic development of the countries belonging to the socialist system at rates outpacing the economic growth of the capitalist countries, the advance of socialism to leading positions in a number of fields of scientific and technological progress, and the blazing of a trail into outer space by the Soviet Union," said the 1969 International Meeting of Communist and Workers' Parties, evaluating the success of the world socialist system in the struggle between the two opposing social systems, "all these tangible results, produced by the creative endeavours of the peoples of the socialist countries, decisively contribute to the preponderance of the forces of peace, democracy and socialism over imperialism."[1]

Even official bourgeois politicians and economists have to admit that capitalism is not winning in the competition between the two world systems.

The successes of socialism in the sphere of material production are the main way in which socialism is being transformed into the decisive factor in mankind's development.

The effect of socialism on capitalism is to be seen in the following.

(1) As a consequence of countries breaking away from capitalism and setting out on the road to socialist development, the sphere of capitalist exploitation is shrinking.

(2) The very fact of the existence and growing strength of the world socialist system revolutionises the thinking of the working people and creates favourable conditions for

[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 22.

the struggle of the working class and other working people for their emancipation.

The successes of socialism in raising the standard of living of the working people, the better satisfaction of their material, cultural and spiritual needs, and the development of socialist democracy serve as an inspiring example for the struggle of the working masses in capitalist countries and at times compel the bourgeoisie to make concessions to the working class.

(3) The world socialist system is a powerful support for peoples rising in revolutionary struggle against imperialism, countering the export of counter-revolution. Countries fighting against colonialism rely in their struggle on the moral, political and material support of the world socialist system.

(4) The unselfish economic, scientific and technical assistance of the world socialist system eases the struggle of the peoples of developing countries against neocolonialism, deprives imperialists of the opportunity to dictate one-sided conditions to them, and helps them to overcome their backwardness and gain economic independence.

Friendly relations of newly-free countries with the world socialist system make their advance along the non-capitalist path a real possibility.

(5) The world socialist system is exerting an ever increasing influence on the development of international relations. Imperialist powers are no longer in a position to dictate their policies to the world. The possibility has emerged for the united efforts of the world socialist system and the forces of peace and democracy to block the course of imperialist aggression and prevent the unleashing of a new world war.

At the 25th Congress of the CPSU, L. I. Brezhnev had this to say about the advantages of socialism and its significance for the fate of humanity: "Already today socialism exercises a tremendous influence on the thinking and sentiment of hundreds of millions of people all over the world. It assures working people freedom, truly democratic rights, well-being, the broadest possible access to knowledge, and a firm sense of security. It brings peace, respect for the sovereignty of all countries and equal interstate co-operation, and is a pillar of support to peoples fighting for their freedom and independence. And the immediate future is sure to provide new

evidence of socialism's boundless possibilities, of its historical superiority over capitalism."[1]

The advantages of the socialist system over the capitalist system in all fields of human activity and, above all, in economics, have now become so evident that the ideologists of the bourgeoisie are no longer in any position to deny them. Bourgeois economists, therefore, now loudly proclaim the so-called convergence theory, according to which there is supposedly a social and economic rapprochement taking place between the socialist and capitalist economies. Similar views have also been expressed by revisionist "theoreticians" such as Roger Garaudy, Ota Šik and Ernst Fischer. They claim that processes are taking place in both capitalist and socialist countries, as a result of which some new sort of social system is supposedly emerging, negating both the present capitalist and socialist systems.

The bourgeois ideologists and their revisionist lackeys, however, ignore a most important fact here, that the economic foundation of socialism is social ownership of the means of production, which excludes the possibility of exploitation of man by man, and predetermines the whole complex of production relations and economic laws which are new and principally different from the capitalist ones.

As for capitalist society, processes are taking place in all spheres of it at present that are evidence of a further development of the general crisis of capitalism. Considering the aggregate of all the crisis processes that have become more and more acute in recent years, one cannot avoid the inevitable conclusion that a further deepening of the general crisis, and a certain qualitative shift in its development, have been taking place in the capitalist world during its third stage.

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[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, pp. 13-14.

Chapter 14

THE DEVELOPMENT OF STATE-MONOPOLY CAPITALISM

1. FURTHER GROWTH OF THE PRODUCTIVE FORCES AND OF THE SOCIAL NATURE OF PRODUCTION

Present-day capitalism, while not changing its essence and remaining monopoly capitalism, has, at the same time, acquired certain new features compared with the beginning of the century. In particular its state-monopoly character has become more pronounced.

Considerable attention was paid at the 24th and 25th Congresses of the CPSU to analysing state-monopoly capitalism. Emphasis was laid on the point that "the features of contemporary capitalism largely spring from the fact that it is trying to adapt itself to the new situation in the world",[1] i.e. to the struggle between the two systems and the developing scientific and technical revolution. The 1969 International Meeting of Communist and Workers' Parties also devoted much attention to this.

The development of the productive forces is inevitably accompanied by the social nature of production becoming more pronounced, but under capitalism, particularly in its present stage, the process becomes very distorted and is characterised by extreme intensification of all the social contradictions of imperialism.

Growth of the social nature of production is seen in the increasing concentration, specialisation and interdependence of the different branches of the economy. In developing Karl Marx's teaching on this question Lenin wrote: "The socialisation of labour by capitalist production does not at all consist in people working under one roof (that is only a small part of the process), but in the concentration of capital being accompanied by the specialisation of social labour, by a

[1] *24th Congress of the CPSU*, p. 20.

decrease in the number of capitalists in each given branch of industry and an increase in the number of separate branches of industry–in many separate production processes being merged into one social production process.... Yet each branch is conducted by a separate capitalist, it depends on him and the social products are his private property. Is it not clear that the form of production comes into irreconcilable contradiction with the form of appropriation? Is it not evident that the latter must adapt itself to the former and must become social, that is, socialist?"[1]

The capitalist socialisation of production, noted by Lenin more than eighty years ago, has now acquired enormous scale. The contemporary scientific and technical revolution is accompanied by an unprecedented increase in the concentration and centralisation of capital, development of the social division of labour, and growth of the social character of production. There has also been further development in the international division of labour, embracing not only different branches of the economy of any particular imperialist nation but also the world economy as a whole. The economic links between the different undertakings and branches of production and between countries and continents have become more extended and interwoven.

The scientific and technical revolution is bringing more and more new industries into existence and fundamentally altering the structure of industry and its energy and raw material base. Unprecedented opportunities for mastering nuclear power, the resources of the world ocean, and outer space have opened up before mankind.

Present-day capitalism is characterised by a rapid development of the new, sophisticated branches of the economy, i.e. electricity generation, the chemical and petrochemical industries, engineering and instrument-making (particularly electronics), providing the basis for technical progress in all other branches of the capitalist economy.

Overall industrial production increased 2.8 times in developed capitalist countries from 1950 to 1970, but the power industry grew 3.7 times. Generation of electricity grew parti-

[1] V. I. Lenin, "What the 'Friends of the People' Are and How They Fight the Social-Democrats", *Collected Works*, Vol. 1, pp. 175-76, 177.

cularly rapidly. The role of nuclear power stations in the production of electricity is increasing, their share in the total electricity output is expected to rise from 4.3 per cent in 1970 to 29 per cent by 1980. The weight of the chemical industry in the total volume of industrial production of the developed capitalist countries rose from 9.6 per cent in 1950 to 16 per cent in 1970. The increased importance of this industry was accompanied by a marked change in the raw material basis of industry. The role of natural raw materials has declined and, consequently, the weight of the extractive industries has also fallen from 9.5 per cent of the total of industrial production in developed capitalist countries in 1950 to 5.4 per cent in 1970. At the same time, however, there has been absolute growth in the oil and gas industries, their share in the total output of the extractive industries of these countries having risen from 25 to 44 per cent.

The creation of new branches of production has necessitated enormous investment in research and development (R&D). Most research is carried out in private laboratories and research centres, but monopolies now also make extensive use of state funds to finance them. The share of the state in R&D expenditure is 63-64 per cent in the USA, 63 per cent in France and 57 per cent in Britain. Most scientific research work is concentrated in the aerospace, electronics, electrical engineering and chemical industries and is military in character, with only a quarter of the expenditure being devoted to research connected with the development of peaceful branches of the economy.

Not only does the capital belonging to an individual entrepreneur often prove insufficient to find solutions to a number of scientific and technical problems connected with production, but also that of the biggest joint-stock companies. What is required is the combining of capital on a national scale and sometimes (as, for example, with the production of nuclear power by West European countries) the joint participation of capital of a number of countries. All this speeds up the concentration and centralisation of capital, increases specialisation of production and promotes further development of the social nature of production.

The unprecedented growth of the social nature of production, while private capitalist property remains intact,

aggravates the conflict between the modern productive forces and capitalist production relations to the limit, intensifies the contradiction between labour and capital, and speeds up the development of state-monopoly capitalism.

2. THE RISE AND ESSENCE OF STATE-MONOPOLY CAPITALISM

Contemporary imperialism is characterised by the development of monopoly capitalism into state-monopoly capitalism.

The essence of state-monopoly capitalism was first disclosed by Lenin, who coined the term for this phenomenon. Speaking at the April Conference of the RSDLP in 1917, Lenin said: "The concentration and internationalisation of capital are making gigantic strides; monopoly capitalism is developing into state-monopoly capitalism. In a number of countries regulation of production and distribution by society is being introduced by force of circumstances."[1]

In the Programme of the CPSU it is defined as follows on the basis of Lenin's description and taking account of present developments: "State-monopoly capitalism combines the strength of the monopolies and that of the state into a single mechanism whose purpose is to enrich the monopolies, suppress the working-class movement and the national-liberation struggle, save the capitalist system, and launch aggressive wars."[2]

In the first two stages of the general crisis of capitalism, the strengthening of state-monopoly capitalism took place mainly during wars or economic crises. In the present stage, the monopolistic bourgeoisie is compelled to make extensive use of the methods of state-monopoly capitalism as a "normal" means of maintaining their dominance.

The growth of monopoly capitalism into state-monopoly capitalism has been accelerated since the Second World War,

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[1] V. I. Lenin, "The Seventh (April) All-Russia Conference of the R.S.D.L.P.(B.)", *Collected Works*, Vol. 24, p. 305.

[2] *The Road to Communism*, p. 471.

stimulated by a number of internal and external factors.

The main objective economic basis for this process is the further growth of the social nature of production, the concentration and centralisation of capital, and strengthening of the dominance of monopolies in the economies of imperialist countries.

In recent years, an unprecedented wave of mergers and take-overs of joint-stock companies, and centralisation of capital and production has been taking place in the capitalist world. With the decrease in the number of giant monopolies, their economic and political sway increases.

It is easier for a group of monopolies, small in number but great in economic power, to dictate to the contemporary bourgeois state, exert a decisive influence on its policies and turn it into an obedient instrument.

The development of state-monopoly capitalism is also accelerated by the scientific and technical revolution, which requires centralisation of capital on a national scale. The bourgeois state, accumulating a significant share of the national income in the state budget through the taxation system, sets up state enterprises with the tax-payers' money that are necessary for the functioning of private capital, but in which capitalists will not risk investing.

When the amount of national capital proves insufficient, it becomes centralised on an international scale. The West European monopolies, for example, have combined their efforts and those of their states, to develop and utilise nuclear energy within the framework of Euratom.

State-monopoly capitalism, thus, reflects the development of the social nature of production on both a national and an international scale. The socialisation of production is reaching its upper limit, and reflects the overripe state of capitalism and the urgent need for its revolutionary overthrow and the transition to socialism. Social production by its very nature objectively requires all members of society to be subordinated to its interests and the establishment of social management and control. "Capitalism in its imperialist stage," as Lenin wrote, "leads directly to the most comprehensive socialisation of production; it, so to speak, drags the capitalists, against their will and consciousness, into some sort of a new social order, a transitional one from complete free

competition to complete socialisation."[1] That is the objective basis of why the bourgeois state is ultimately compelled to "regulate" the capitalist economy in some way or other.

One of the reasons for the growth of state-monopoly capitalism is the sharpening of class contradictions. The intensification of exploitation by monopoly capital not only of the working class but also of other strata of working people calls forth resistance to its oppression from the broadest strata of the nation. Under these conditions, strikes become both political and national in character. The monopolies themselves no longer have the strength to cope with the mass resistance of the working people. They, therefore, increasingly resort to the power of the bourgeois state in this battle. The bourgeois state "regulates" relations between labour and capital in the interest of the monopolies, adopting anti-labour laws of every kind, making strikes illegal and encouraging strikebreaking, "freezing" of wages, and so on.

The development of monopoly capitalism into state-monopoly capitalism is also explained by changes in the international position of the imperialist countries. Capitalism has already ceased to be the all-embracing and all-determining economic system. The world socialist system has emerged and is developing, which, by demonstrating the economic and political superiority of socialism, is exerting an ever increasing influence on the development of mankind. At the same time, "the fact that imperialism has no historical prospects becomes even more obvious".[2] In order to hold its own in economic competition with socialism, monopoly capital has to resort to the combined force of the monopolies and state apparatuses of a number of countries. To this end, it uses capitalist integration, setting up multistate monopoly organisations like the European Economic Community (the Common Market), the European Free Trade Association, and others.

The development of state-monopoly capitalism on the international plane is also largely connected with the disin-

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[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 205.

[2] *24th Congress of the CPSU*, p. 214.

tegration of the colonial system. The break-up of old colonial empires has prompted the imperialists to combine the efforts of their governments to maintain the remnants of colonialism and to spread it in new forms, a goal served, for example, by the Eurafrica agreement, by which the monopolies of the countries of the Common Market are endeavouring to maintain their colonial positions in the newly-free countries of Africa.

The formation of inter-state monopoly organisations has also been encouraged by the increasingly uneven development of capitalism since World War II. The monopolies are striving to use the state to strengthen the competitiveness of their national imperialism in the struggle for foreign markets and spheres of capital investment and economic domination.

State-monopoly capitalism is neither something new in comparison with the monopoly stage of capitalism, nor "super-imperialism". The new features of contemporary capitalism are the result of further development of the social nature of production and the strengthening of dominance of monopolies in economics and politics. Does that mean, however, that the development of productive forces and the growth of the social nature of production must necessarily lead to the rise of state-monopoly capitalism? The answer to that question must be in the negative.

The contemporary social productive forces call for social management of production in the interests of the producers themselves. That is to say they call for the transition to socialism. This transition, however, will not take place automatically as a result of the growth of the social character of production; for the transition from capitalism to socialism to take place there must be a revolutionary change in social relations, i.e. establishment of the dictatorship of the proletariat and socialist nationalisation of the means of production.

Objectively, the capitalist world as a whole has long been ripe for the proletarian revolution, but the subjective preconditions for it in the different countries do not yet exist and cannot be created simultaneously. In countries in which the proletarian revolution has been delayed for one reason or another, the domination of monopoly capital leads with objective inevitability to the development of monopoly

capitalism into state-monopoly capitalism. The economic advantages obtained in these circumstances as a result of the development of the social nature of production are employed by the monopolies for their own selfish ends at the expense of the working masses.

As the state-monopoly character of contemporary capitalism is more pronounced, all its contradictions become more acute. In his speech at the 1969 International Meeting of Communist and Workers' Parties, L. I. Brezhnev noted: "Massively socialising production and centralising its management, state-monopoly capitalism is carrying to extremes the basic contradiction of the bourgeois system, the contradiction between the social nature of production and the private appropriation. The unnatural character of the situation in which production complexes, some of which serve more than one country, remain the private property of a handful of millionaires and billionaires is becoming increasingly evident to the peoples. The need for replacing capitalist by socialist relations of production is becoming ever more pressing."[1]

3. THE FORMS OF STATE-MONOPOLY CAPITALISM

State-monopoly capitalism has its own distinctive features in each imperialist country, depending on the concrete historical internal and external conditions of its development. But for all that, we can distinguish basic forms or lines of development of state-monopoly capitalism common to the majority of imperialist countries.

In order to envisage the concrete forms in which the essence of state-monopoly capitalism is expressed, we must first clarify what effect state intervention has on contemporary imperialism's whole system of production relations, that is, on the relations pertinent to the ownership of the means of production, distribution, exchange and consumption of the social product. That will enable us to explain what new features the system of state-monopoly capitalism introduces

[1] L. I. Brezhnev, *Following Lenin's Course*, Moscow, 1972, p. 159.

into the internal structure of capitalism and to what extent it modifies the production relations of the capitalist mode of production. At the same time, we must also consider the new features state intervention introduces into international economic relations and the world capitalist economic system. Taking all that into account, the following main lines of development of the system of state-monopoly capitalism may be mentioned:

entrepreneurial activity by the bourgeois state, seen primarily in the growth of state or national monopoly ownership of a certain share of the means of production and social wealth;

state programming and regulation of the economy both direct and centralised and indirect by way of redistribution of the national income through the state budget, the credit and financial system, and the policy of prices;

state regulation of relations between the entrepreneurs and the working people;

state consumption of the final social product, mainly in the form of state military purchases and orders, and development of militarisation of the capitalist economy;

support for and financing by the bourgeois state of the external economic expansion of monopoly capital and neo-colonialism;

the creation of inter-state monopoly alliances, conclusion of agreements, and the development of imperialist integration as an instrument in the struggle for economic and territorial redivision of the world.

Finally, the system of state-monopoly capitalism is furthered by continued development of personal unions between the representatives of monopoly capital and their alliances with bourgeois governments.

State-Monopoly Ownership

The most important form of the development of state-monopoly capitalism is direct intervention of the bourgeois state in the property relations pertinent to the means of production, which finds expression in the development of entrepreneurial activity by imperialist states, in growth of

the state sector of the economy, and in an increase of state or national monopoly ownership.

In the countries of monopoly capital, from 15 to 25 per cent of the national wealth belongs to the state, which not only owns separate enterprises, but also whole industries (e.g. communications, transport, electricity generation, gas industry, coal mining, credit and financial institutions, and the like).

In Great Britain, the coal industry, the railways, the gas industry and the generation of electricity are concentrated in the hands of the state. About 20 per cent of all industrial and office workers are employed in state enterprises.

In France, the state sector produces about 15 per cent of the gross national product; 80 per cent of the aircraft industry and almost the whole coal industry and generation of electricity are concentrated in the hands of the state.

In West Germany, around 25 per cent of all share capital is under state control, including a considerable share of the mining of aluminium, iron ore and coal, railway transport and the generation of electricity.

In several West European countries, state-monopoly ownership is the result of nationalisation of certain branches of industry, carried out by bourgeois governments influenced, on the one hand, by the demands of the popular masses and, on the other hand, by the interests of a certain section of the monopolistic bourgeoisie, whose enterprises were close to bankruptcy.

In certain countries, state ownership is the result of state capital investment in industries of great economic and strategic significance, but requiring large expenditure and a certain risk. Private monopolies are frightened to invest their own capital in these industries, since the investment may not in the first instance be profitable. That, for example, is how the atomic industry was set up in the USA.

In all imperialist countries, state property is employed in the interests of private monopolies. The management of state enterprises presents them with golden opportunities as it is exercised, as a rule, by supervisory boards, consisting of representatives of monopoly capital.[1] These boards decide the financial policy of the enterprises, including the selling

[1] The British trade union secretary Clive Jenkins, in his *Power at*

prices of their output. In that way, the private monopolists get the chance to buy commodities important to them (coal, electricity and gas) at low wholesale prices and to enjoy subsidised railway rates for freight, which enables them to reduce costs of production and increase their profits. When power stations were nationalised in France, for example, the working people expected the price of electricity to be reduced. Charges for the domestic use of electricity, however, remained high, but the price of electricity for the major monopolies was fixed at between 5 and 10 per cent of the price paid by the domestic consumer. As a result, the steel and chemical monopolies in France received thousands of millions of francs net profit. The surplus value created by the workers in state enterprises finds its way into the pockets of the private monopolists. The rate of profit for private monopolies, therefore, significantly exceeds that of state enterprises. The average profits of private monopolies in Great Britain, for example, are about 16 per cent, while that for state power stations does not exceed 5 per cent and for British railways is only 0.2 per cent.

The defenders of capitalism try to present state-monopoly property as a variety of public socialist property. In fact, however, it is the joint corporate property of the monopolistic bourgeoisie, since it is used in their interests and for their profit. Such a situation is inevitable under the political dominion of the financial oligarchy. The essence of the relations of production remains capitalist. Only a certain modification of these capitalist relations takes place. The working class is no longer opposed by the individual capitalist or joint-stock company, but by monopoly capital as a whole and its board of management, the bourgeois state. Monopoly capital now exploits the working class by using the bourgeois state machinery. The description of state ownership given by Frederick Engels in *Anti-Dühring* is fully applicable to

the Top, gave the following interesting data on the composition of the management of eight state monopolies in Great Britain. Of the 272 members of the management boards, only 47 were representatives of trade unions and the Labour Party, while 106 were at the same time directors of large private companies. Forty-nine of the directorships in the state monopolies were held by representatives of the 38 largest insurance companies, while another 31 were held by representatives of 18 banks.

state-monopoly ownership. "But the transformation, either into joint-stock companies [and trusts]," he wrote, "or into state ownership, does not do away with the capitalistic nature of the productive forces.... The modern state, no matter what its form, is essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital. The more it proceeds to the taking over of the productive forces, the more does it actually become the national capitalist, the more citizens does it exploit. The workers remain wage-workers-proletarians. The capitalist relation is not done away with. It is rather brought to a head."[1]

The bourgeoisie, it must be emphasised, only resorts to nationalisation to a certain limit. During cyclical upswings in industry and favourable market conditions, the monopolistic bourgeoisie strives to regain as private property certain of the enterprises that had previously been nationalised and opposes further development of nationalisation.

While unmasking the exploitative essence of state-monopoly ownership, the working class and Communist and Workers' parties, at the same time, oppose any "denationalisation" (return to private ownership) of state enterprises. It is easier to establish democratic control in state enterprises than in private ones, and easier to win a certain improvement in working conditions. State ownership to some extent serves as a barrier to the infiltration of foreign capital into the economy. The programmes of most Marxist-Leninist parties in capitalist countries include demands for nationalisation, which would be accompanied by the establishment of democratic control over the activities of the nationalised enterprises.

State Programming and Regulation of the Economy

Such forms of state-monopoly capitalism as forecasting, programming and regulation of economic affairs through the state budget and the state finance and credit system have developed significantly.

[1] Frederick Engels, *Anti-Dühring*, pp. 330-31.

In most imperialist states, special organs have been set up to programme the economy. In France, there is the Commissariat of the Plan for the Modernisation and Equipping of the French Economy, and in Great Britain the National Economic Development Council, and so on. The programming, however, is rather limited. "Plans" are primarily recommendations and are only compulsory for state enterprises. They do not, as a rule, cover the whole economy, but generally the railways, power, geological prospecting, scientific research and certain other branches of the economy, in the development of which monopoly capital as a whole is interested.

Since direct regulation of the economy cannot be effective given the predominance of private ownership of the means of production, bourgeois states often resort to indirect methods of regulation, primarily by redistributing the national income through the state budget, the system of prices, the monetary and credit system. At the beginning of the century, the budgets of imperialist countries accumulated between 3 and 5 per cent of the national income. At the present time, between 26 and 55 per cent of the national income is drawn into the state budget through taxes. The main source of budget revenues are taxes from the working people, who provide from 70 to 85 per cent of all tax revenue. Another major source of revenue is state loans, i.e. bonds that are primarily floated among the major groups of financial capitalists and bring them high guaranteed interest.[1]

The main items of expenditure are direct and indirect military spending. In the USA, they constitute the bulk of all federal budget expenditure. Considering that military orders and credit for arms production go primarily to

[1] This is one of the causes of the imperialist countries' growing indebtedness. In the USA, for example, the national debt up to the Second World War was around 1,000 million dollars; by April 1975, it had risen to 538,500 million dollars. Very high guaranteed interest is usually paid on state loans. In the 1974/75 fiscal year, total payments were 33,000 million dollars. The funds for paying this interest are extracted by increasing the tax burden on the working people and by inflation. That is why Lenin considered loans as a covert form of taxation.

the biggest arms monopolies, it is quite clear that the state budget is used mainly to enrich the upper echelons of the financial oligarchy.

The economy is also "regulated" by means of other financial levers. The policy of so-called accelerated depreciation is of particular interest. Laws on accelerated depreciation were passed in the USA at the beginning of the 1960s and an extremely short depreciation period of two or three years was established for a number of industries (mainly in the arms and export industries). Since, in practice, the wear of fixed capital takes considerably longer, this law gave monopolies the chance to conceal a significant share of their profits from the tax authorities, by putting them down as depreciation allowances not subject to taxation. Because of this law, the monopolies avoid paying thousands of millions of dollars annually into the US budget. In Japan, the monopolies in certain industries, on which the competitiveness of Japanese imperialism on foreign markets depended, were totally exempted from taxation.

In connection with the broad development of programming and regulation of the economy, the opinion is gaining currency that contemporary capitalism has allegedly overcome its tendency to anarchy and that the trend towards planned and proportional development predominates under the conditions of state-monopoly capitalism. Present-day capitalism, however, though it has achieved certain success in planned organisation of production in individual enterprises and even within monopoly conglomerates, cannot overcome the anarchy of production on the scale of a whole country, let alone of the world capitalist economic system.

State-monopoly regulation is carried out in the interests of monopoly capital, and it is in no position to curb the spontaneous forces of the capitalist market. Clear confirmation of this is the economic crisis of 1974-75 which affected the highly developed state-monopoly economy most of all. "Capitalism did its utmost, so to speak, to keep in step with the times," L. I. Brezhnev said at the 25th Congress of the CPSU, "to apply various methods of economic regulation. This made it possible to stimulate economic growth, but, as

the Communists foresaw, it could not remove the contradictions of capitalism."[1]

Capitalist ownership of the means of production is the main obstacle to planned, balanced development of the economy, which is precisely what excludes the possibility of subordinating social production to satisfying the needs of all members of society, and what gives rise to impoverishment of the masses and the lag of the working people's purchasing power behind the growth of production. It also leads to imbalance in social production and intensification of the contradiction between production and consumption, and ultimately to economic crises of overproduction.

The facts confirm Lenin's thesis that "the trusts, of course, never provided, do not now provide, and cannot provide complete planning".[2]

Bourgeois politicians and economists themselves are now forced to admit the limited nature of capitalist programming.

State Regulation of Relations between Employers and Workers

The bourgeois state "regulates" the relations between employers and workers in the interests of monopoly capital.

Bourgeois governments in imperialist countries are making wide use of measures aimed at "freezing" of wages which brings in additional profits to the monopoly capitalists and artificially maintains the gap between the relatively stable price of labour and the rising cost of living.

The imperialist state adopts reactionary legislation to make the struggle of the working class against capitalist exploitation more difficult. For example, in the USA, the anti-labour Taft-Hartley Labour Relations Act has been in operation since 1947 and the Lundrum-Griffin Act since 1959, which limit the rights of workers to strike and put the

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 33.

[2] V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, p. 443.

activities of the trade unions under government control. During the famous strike of British miners in 1972, the British Government brought in a law on picketing aimed at supporting strikebreakers and making the strike struggles of workers more difficult.

Even during the First World War, Lenin wrote: "Both America and Germany 'regulate economic life' in such a way as to create conditions of *war-time penal servitude* for the workers (and partly for the peasants) and a *paradise* for the bankers and capitalists. Their regulation consists in 'squeezing' the workers to the point of starvation, while the capitalists are guaranteed (surreptitiously, in a reactionary-bureaucratic fashion) profits *higher* than before the war."[1]

State Consumption and Militarisation

One of the forms of state-monopoly capitalism is what is called state consumption. The bourgeois state interferes not only in the production and distribution of the social product but also in its consumption, a significant share of which goes to meet its needs, mainly for military purposes. In the past, state consumption acquired a vast scale during wars, but today, even in peacetime, it swallows up a considerable part of the social product. In the USA in 1971, for example, out of a gross social product of 931,000 million dollars, the state purchased goods and services to the tune of 293,000 million dollars.

The relatively narrow and unstable domestic market compels monopoly capital to seek ways of expanding it. One of those by which monopolies ensure themselves a guaranteed market for their output is "treasure work", i.e. state purchases of goods and services, which has developed widely since World War II. This is primarily connected with militarisation of the economy.

Militarisation of the economy is one of the most obvious signs of the decay of capitalism during its general crisis. As the Programme of the CPSU says: "State-monopoly capitalism stimulates militarism to an unheard-of degree. The im-

[1] V. I. Lenin, "The Impending Catastrophe and How to Combat It", *Collected Works*, Vol. 25, p. 334.

perialist countries maintain immense armed forces even in peacetime. Military expenditures devour an ever-growing portion of the state budgets. The imperialist countries are turning into militarist, military-police states. Militarisation pervades the life of bourgeois society."[1]

During the existence of NATO, the members of this aggressive bloc have spent more than 1,700,000 million dollars on military ends. In 1974 alone, NATO expenditure was 131,600 million dollars, seven times as high as in 1949. US military expenditure is growing especially fast; in 1975, the military budget provided for the spending of 85,800 million dollars, while appropriations for military purposes in 1976 were 112,700 million dollars.

The total number of persons engaged in military work (servicemen, war industry and servicing the armed forces) in the capitalist world is about 75 million.

The main bulwark of militarism in the capitalist world are US monopolies. Through militarisation, monopoly capital strives to solve both internal political problems (to strengthen the position of reaction) and external political problems (to launch aggression against socialism; to maintain their position in developing countries and to combat progressive forces throughout the world). But that does not exhaust its purpose.

The main economic goal of militarisation is to provide vast profits for monopoly capital. The rate of profit of the monopolies of the military-industrial complex is much higher than the average for all other monopolies. According to data from the US Bureau of Financial Accounting, the rate of profit in manufacturing industry hovers around 20 per cent. At the same time, out of 169 monopolies–military subcontractors–investigated by one of the Senate subcommittes, 94 corporations receive about 50 per cent profit, 49–more than 100 per cent, 22–more than 200 per cent, 3–more than 500 per cent and one monopoly receives almost 2,000 per cent profit.

The bourgeois state attempts, through militarisation, to stimulate economic activity and prevent economic crises of overproduction. Militarisation can, of course, stimulate

[1] *The Road to Communism*, p. 474.

production to a certain degree and within certain limits, but on the whole it withdraws enormous material and human resources from production. From the economic point of view, military production and the maintenance of armed forces ultimately represent non-productive waste of part of the social product. "War," Marx noted, "in direct economic terms is just the same as if a nation cast part of its capital into the water."[1]

Military production, expanded at the expense of civil production, reduces the growth rate of the latter. The higher the proportion of the national income expended on military purposes, the lower the growth rate of civil industry will be.

Militarisation weighs heavily on the position of the working masses. Bourgeois states cover their enormous military expenditure and the interest payments on state loans by increasing taxes, primarily on the working people.

The growth of military expenditure usually entails a budget deficit and inflation, which, in turn, as we have already said, reduces the real wages of the working class and the incomes of other strata of the working people.

Thus militarisation means, in the words of L. I. Brezhnev, that "the labour of many millions of people, the brilliant achievements of the human intellect, of the talent of scientists, researchers and engineers, are used not for the benefit of mankind, for promoting progress and the remaking of life on earth, but for barbarous, reactionary purposes, for the needs of war, the greatest of calamities for the peoples".[2]

However ruinous militarisation is for the economy as a whole, it brings vast gains to monopoly capital and is therefore stimulated by bourgeois states in every way possible.

State Support of the Economic Expansion of Monopolies Abroad

One of the types of state-monopoly capitalism is extensive use of the bourgeois state by monopoly capital to strengthen and expand its dominance in the international

[1] Karl Marx, *Grundrisse der Kritik der Politischen Ökonomie (Rohentwurf)*, Bd. I, Moskau, 1939, S. 47.

[2] L. I. Brezhnev, *Following Lenin's Course*, p. 161.

arena and to support neocolonialism in all its forms. "Aid" to other countries has a special place in this.

The nature and geographical distribution of "aid" changes with the strategic goals of monopoly capital at any given moment in any particular part of the world. In the first years after the Second World War, US "aid", for example, was mainly directed to the countries of Western Europe, to help monopoly capital restore its military and economic potential and, at the same time, to ensure a market for piled-up stocks. This American "aid" promoted the establishment of reactionary regimes in Greece and certain other capitalist countries and financed anti-communist hysteria in Italy and France. From the 1950s, when monopoly capital was sufficiently strong in Western Europe and when the rapid disintegration of the imperialist colonial system had set in, "aid" from US monopolies found a new address and began to be directed mainly to countries in South-East Asia, the Middle East, Latin America and Africa. Until the end of the 1950s, it was predominantly military "aid" to allies in aggressive blocs, and constituted around 43,000 million dollars. Not more than 20 per cent of all resources supplied as "aid" went on economic needs.

From the beginning of the 1960s, significant sums of "aid" have been directed by the imperialist powers to support reactionary regimes and also to a number of economically less developed countries, with the aim of tying them economically to the system of world capitalism as raw material appendages, and of preventing them from taking a non-capitalist path of development opening up a socialist prospect for liberated states.

In addition to programmes of "aid", the external economic expansion of monopoly capital includes state financing of dumping on foreign markets, state subsidies, and guarantees for the export of capital and commodities by private monopolies.

International State-Monopoly Organisations

On the international plane, state-monopoly capitalism primarily operates in the form of inter-state monopoly organisations—the European Economic Community (EEC), the

European Free Trade Association (EFTA), the International Bank for Reconstruction and Development (IBRD), the International Monetary Fund (IMF), the International Development Association (IDA), and others.

One of the most typical international state-monopoly organisations is the European Economic Community, or the Common Market. From 1958 to 1973, it was a state-monopoly organisation of six West European countries (the Federal Republic of Germany, France, Italy, Belgium, Netherlands, and Luxemburg). In 1973, it was joined by three other members—Great Britain, the Republic of Ireland, and Denmark. The monopoly capital of this community uses the combined might of its members to intensify exploitation of the peoples both of the community and of other countries, to carry out collective neocolonialism, to suppress the revolutionary movement, and for joint struggle against the world socialist system. At the International Meeting of Communist and Workers' Parties in 1969, it was noted that in trying to meet the challenge of socialism and to strengthen their position, the imperialists are combining their efforts on an international scale, and resorting to various forms of economic integration.

The drive to create this type of international monopoly organisation mainly reflects, as was indicated above, the growing contradiction between productive forces and production relations in the world capitalist system. The socialisation of production transcends national frontiers. The national boundaries are too cramped for capital. The specialisation of production and the rise of new industries, the transition of agriculture to the machine stage of production, and the increasing role of research in the development of material production—all encourage the development of imperialist integration and, at the same time, increase the volume of output and necessitate huge markets.

The capacity of the home market under capitalism, however, is limited by the low purchasing power of the working people. Markets grow more slowly than production capacities. At the same time, as a result of the rise and growth of the world socialist system and the collapse of the colonial system, imperialist monopoly of foreign markets has been undermined. And in consequence of the uneven economic

development of capitalism, the struggle between imperialist powers for a redivision of markets and spheres of influence is becoming more intense. The growth of the revolutionary activity of the working people, however, and the strengthening of the forces of peace and socialism in the international arena are making it more and more risky to struggle for redivision of the world by the old methods, i.e. by unleashing war. State-monopoly capitalism is, therefore, striving to solve the problem of foreign markets by creating inter-state monopolistic associations. Yet they cannot overcome the internal and external inter-imperialist contradictions; they only alter the form of the struggle and make it sharper.

The main positions in the Common Market, for example, were seized by the biggest West German and French monopolies. At the same time, there is no unity between them, and cannot be, since each side strives to cut itself a larger slice of the cake. It is not by chance that there is an irreconcilable struggle between these particular monopoly groups within the Common Market. With the entry of Great Britain, the internal contradictions of the Common Market have become even more intense. British imperialism is trying to solve its difficulties and strengthen its position in Western Europe at the expense of its new partners.

The rivalry between the Common Market and American imperialism has intensified. "The Nine", or the Common Market with its new members, represents a serious competitor to American imperialism.

In noting the contradictions of the Common Market, the fact must not be ignored that the monopoly capital of the "integrated" countries has achieved certain advantages by weakening the position of its competitors both in Europe and across the Atlantic.

Strengthening of the Personal Ties of Monopoly Capital with Bourgeois Governments

The further growth of state-monopoly capitalism is also seen in the strengthening of the personal union of monopoly capital with bourgeois governments. As Lenin showed, this is inherent in capitalism at the imperialist stage of its devel-

opment, and takes two main forms: (1) government officials occupy important posts on the boards of private monopolies and banks; and (2) agents of the monopolies and the heads of the biggest corporations or banks themselves hold leading posts (right up to president) in bourgeois governments.

Here, particular note must be taken of so-called military-industrial complexes, a specific form of personal union, i.e. merging of the military circles of imperialist states with the monopolies producing armaments.

After World War II, such an organisational form of links at the personal level as the representative organisations of monopoly capital exerting pressure on bourgeois governments also became common. In all imperialist countries, there are associations of industrialists like the National Association of Manufacturers in the USA, the Federation of German Industries in West Germany, the General Confederation of Italian Industry in Italy and the Confederation of British Industry in Great Britain. Whatever these organisations are called, the point is that the governments cannot decide a single fundamental question concerning the economic or political life of the country without first consulting these organisations. Even the work of the European Economic Community is controlled and directed by a specially created inter-state organisation of monopoly capital–the Union of Industries of the European Community (UNIC), which has assumed the right to contact the official organs of the EEC as the plenipotentiary representative of the industry of the countries of the community. The representatives of UNIC are, at the same time, official members of the different organs and officials of the EEC, ECSC and Euratom.

The Present Economic Role of the Bourgeois State

As state-monopoly capitalism has grown, the role of the bourgeois state in the capitalist economy has been strengthened. "Its state-monopoly character is becoming more pronounced," the 1969 International Meeting of Communist and Workers' Parties noted in its resolution. "It resorts ever more extensively to such instruments as state-stimulated

monopolistic concentration of production and capital, redistribution by the state of an increasing proportion of the national income, allocation of war contracts to the monopolies, government financing of industrial development and research programmes, the drawing up of economic development programmes on a country-wide scale, the policy of imperialist integration and new forms of capital export."[1]

Earlier the bourgeois state performed only the role of "night watchman", as Engels put it, while protecting the property of the bourgeois class, and the economy was outside its competence. Now, when capitalist socialisation of production has reached a high degree of development and all the contradictions of capitalism have been sharpened to the extreme, monopoly capital is merging with the bourgeois state and using the state machinery to interfere in all spheres of life in present-day bourgeois society, especially in the process of reproduction. That does not mean, however, that the state has become a force above classes, as bourgeois and reformist theoreticians claim. In the close union of the monopolies and the bourgeois state, the leading role still belongs to monopoly capital. As Engels wrote, "the state ... is on the whole only a reflection, in concentrated form, of the economic needs of the class controlling production."[2]

It would be a mistake, however, to deny that the state exerts an active influence on the economy. To understand correctly the processes taking place today in capitalist countries, the actual ways in which the bourgeois state intervenes in the economy must be studied from a Marxist-Leninist point of view and the limitations, results, and class essence of this intervention analysed, without overestimating its possibilities of action.

The bourgeois state, in nationalising enterprises (usually under the pressure of the working masses), does so in such a way as to preserve the interests of monopoly capital and to transfer the enormous outlays required to replace obsolete equipment onto the shoulders of the workers. It redistributes

[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 18.

[2] Frederick Engels, "Ludwig Feuerbach and the End of Classical German Philosophy". In: Karl Marx and Frederick Engels, *Selected Works*, in three volumes, Vol. 3, p. 370.

the national income in favour of monopoly capital, particularly through militarisation of the economy, ensures it enormous profits and a guaranteed market for output. What is more, during economic crises, the state subsidises the monopolies on a grand scale. As a result, for certain monopoly capitalist groups, the state can soften the consequences of economic crises and transfer their burden onto the working people.

The bourgeois state fosters the foreign economic expansion of private monopolies in every possible way, and raising of the competitiveness of its own national imperialism on foreign markets, and in certain cases also finances dumping. It guarantees private monopolies the export of capital to developing countries, transferring the risk involved, particularly during the disintegration of the imperialist colonial system, onto the tax-payer.

The bourgeois state draws up, passes and implements anti-labour legislation, thus becoming an instrument for intensifying the exploitation of the working masses and, in the full sense of the term, the executive committee for managing the affairs of the monopolistic bourgeoisie.

State-Monopoly Capitalism and Preparation of the Preconditions for Socialism

The development of state-monopoly capitalism, regardless of the will and desires of the monopolistic bourgeoisie and the governments controlled by it, means preparation of all the material preconditions for the socialist revolution.

In "The Impending Catastrophe and How to Combat It", Lenin wrote that "state-monopoly capitalism is a complete *material* preparation for socialism, the *threshold* of socialism, a rung on the ladder of history between which and the rung called socialism *there are no intermediate rungs*".[1]

What exactly did Lenin have in mind by the expression "material preparation for socialism"?

(1) State-monopoly capitalism speeds up the development of the social character of production enormously, which inev-

[1] V. I. Lenin, *Collected Works*, Vol. 25, p. 359.

itably leads, under the domination of private capitalist ownership, to intensification of the basic contradiction of capitalism and all the forms in which it is manifested. At the same time, centralisation of the economy on a national and international scale, will facilitate the building of socialism after the working class has gained power.

The development of monopoly capitalism into state-monopoly capitalism, Lenin noted, brings mankind closer to socialism, for "socialism is merely state-capitalist monopoly *which is made to serve the interests of the whole people* and has to that extent *ceased* to be capitalist monopoly".[1]

(2) State-monopoly capitalism sets up the machinery to manage state property and regulate the capitalist economy. With the establishment of the dictatorship of the proletariat, the state machine of violence and oppression of the working people is destroyed; but the mechanism of control and regulation of economic life is used by the proletariat to organise the building of socialism. As Lenin said in *The State and Revolution*, "the mechanism of social management is here already to hand. Once we have overthrown the capitalists, crushed the resistance of these exploiters with the iron hand of the armed workers, and smashed the bureaucratic machine of the modern state, we shall have a splendidly-equipped mechanism, freed from the 'parasite', a mechanism which can very well be set going by the united workers themselves. . . ."[2]

(3) The emergence and development of state property under capitalism and the development of state programming and regulation of the economy objectively demonstrate the failure of the very principle of private property, its incompatibility with the growth needs of the modern productive forces and are evidence that for social production to function the bourgeoisie is unnecessary.

(4) The development of state-monopoly capitalism intensifies the class conflicts of bourgeois society and speeds up maturation of the subjective factors of the revolutionary replacement of capitalism by socialism.

Although it is the material preparation for socialism, its

[1] Ibid., p. 358.
[2] Ibid., p. 426.

threshold, state-monopoly capitalism cannot, however, automatically grow into socialism, without the proletarian revolution and without the dictatorship of the proletariat. Lenin stated that "the erroneous bourgeois reformist assertion that monopoly capitalism or state-monopoly capitalism is *no longer* capitalism, but can now be called 'state socialism' and so on, is very common".[1]

State monopoly can be made to serve the whole people only when state power is snatched from the hands of the bourgeoisie, and for that a socialist revolution is needed, and establishment of the dictatorship of the proletariat. Whether this is performed by relatively peaceful means or whether the proletariat takes power as a result of armed uprising depends on the actual conditions in each country, on the balance of forces between the proletariat and the bourgeoisie, on the revolutionary consciousness and degree of organisation of the working class, and on its ability to carry the other working people along with it. At the 24th Congress of the CPSU, it was noted that the development of state-monopoly capitalism leads not to the stabilisation of capitalism as a social system, but to an aggravation of all the contradictions of capitalism and to a rise of the anti-monopoly struggle.[2]

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[1] V. I. Lenin, *Collected Works*, Vol. 25, pp. 442-43.
[2] See *24th Congress of the CPSU*, p. 214.

Chapter 15

THE CRISIS AND BREAK-UP OF THE COLONIAL SYSTEM OF IMPERIALISM. ECONOMIC PECULIARITIES OF DEVELOPING COUNTRIES

1. THE DISINTEGRATION OF IMPERIALISM'S COLONIAL SYSTEM

A basic feature of the general crisis of capitalism is the crisis of the imperialist colonial system, which is now approaching its final downfall.

The colonial system of imperialism had taken shape by the beginning of the twentieth century, when the world had divided into two parts: on the one hand, a small group of imperialist powers, exploiting and oppressing the peoples of the colonies, and on the other hand, a large group of colonial and dependent countries. "Capitalism," as Lenin wrote, "has grown into a world system of colonial oppression and of the financial strangulation of the overwhelming majority of the population of the world by a handful of 'advanced' countries."[1] For the imperialist powers the colonies were, it seemed, an inexhaustible source of enrichment, from which industrial and agricultural raw materials were drawn, along with fabulous profits from the export of capital and commodities and exploitation of their territories.

The colonial domination, however, inevitably led to the creation of the objective and subjective preconditions for imperialism's weakening and ultimate collapse. The productive forces were developed in colonial countries, though very slowly and in a mutilated form; capitalist relations of production took shape and the contradictions inherent in capitalism in general developed. There was an increase in the numbers and degree of organisation of the national proletariat which waged a persistent battle against colonialism.

[1] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 191.

Other contingents of the working people also rose in struggle, above all, the numerous peasantry, suffering the oppression both of local feudal lords and foreign capital. A national bourgeoisie also grew up, whose interests were not always in line with those of foreign capital. They too, therefore, began, though not always so resolutely or consistently, to resist the domination of foreign monopolies. The anti-imperialist struggle thus united various social strata of colonial and dependent countries.

The October Revolution and the Beginning of the Crisis of the Colonial System

The Great October Socialist Revolution, in changing the whole course of mankind's historical development, had a decisive effect on the development of the national liberation movement. The Soviet state's solution of the national and agrarian problems, and creation of a powerful economy, and its cultural reforms became an inspiring example for the peoples of colonies and dependent countries. Soviet Russia's abrogation of all unequal treaties and establishment of friendly relations with the countries of the East on the basis of equality and respect for the sovereignty of large and small nations alike had an immense revolutionising influence on the oppressed working masses.

Lenin saw clearly the historical potential of uniting the struggle of the revolutionary proletariat for socialism with the national liberation movement. "The socialist revolution will not be solely, or chiefly, a struggle of the revolutionary proletarians in each country against their bourgeoisie—no, it will be a struggle of all the imperialist-oppressed colonies and countries, of all dependent countries, against international imperialism."[1]

Under the influence of the October Revolution, in colonial and dependent countries the class consciousness of the proletariat grew, it entered the arena of political struggle,

[1] V. I. Lenin, "Address to the Second All-Russia Congress of Communist Organisations of the Peoples of the East", *Collected Works*, Vol. 30, p. 159.

Marxism-Leninism became widespread and Communist parties appeared and gradually gained in strength. Under the blows of the national liberation movement, the crisis of the colonial system of imperialism set in, shaking it to its foundations, and the first successes were gained in the struggle for political independence.

After the socialist revolution in Russia, the political life of the peoples of neighbouring colonies and dependent countries of the East became more active. The national liberation movement gained strength in China, India, Turkey, Iran, Afghanistan, Mongolia and other countries. The revolutionary actions of the peoples, however, did not always lead, in the first stage of the general crisis of capitalism, to true independence being won. Though granting formal independence to certain countries (e.g. Iraq, Lebanon and others), imperialist states succeeded in keeping them in fact dependent on imperialism. The victory of the October Revolution opened to colonial peoples the possibility of taking a non-capitalist path of development.

The Influence of World Socialism on the Break-Up of the Colonial System

In the second stage of the general crisis of capitalism, the victory of the USSR over Hitler's Germany and imperialist Japan, and the formation of a world system of socialism, created even more favourable conditions for the struggle of the peoples of the colonies and dependent countries for independence. The success of the socialist system in economic competition with capitalism and the relations of friendship and of mutual aid without strings between the socialist countries had a favourable effect on the development of the national liberation movement. The socialist countries rendered the colonial and dependent countries all-round economic, technical, political, and occasionally also military, assistance. The crisis of the colonial system of imperialism developed into its break-up. In the first ten years after the war, more than 1,200 million people, i.e. most of the oppressed nations, had freed themselves from colonial or semi-colonial dependence.

In the third stage of the general crisis of capitalism, the break-up of the colonial system developed into its universal crash and liquidation. With the general weakening of imperialism and strengthening of the world socialist system and the powerful upsurge of the working-class and democratic movements, the colonial system created by capitalism finally collapsed under the blows of anti-imperialist, national liberation revolutions. In place of the former colonial world, about 80 independent national states were formed, which is of enormous historical significance in changing the balance of forces in the world today in favour of socialism and progress and to the detriment of imperialism. A particularly important year in this connection was 1960, which has gone down in history as Africa Year. In that one year, 17 African countries gained their independence. By the end of 1975, there were already 47 sovereign states in Africa. Since the middle of the 1970s, the final stage in the collapse of imperialism's colonial system has developed there.

"In the past decade," the Moscow International Meeting of Communist and Workers' Parties in 1969 said, *"the role of the anti-imperialist movement of the peoples of Asia, Africa and Latin America in the world revolutionary process has continued to grow.* In some countries, this movement is acquiring an anti-capitalist content.

"In many *Asian and African* countries the national liberation movement has entered a new phase. A large number of national states has emerged in this area, substantially altering the world political structure and changing the balance of power to the detriment of imperialism. The old colonial empires have been almost completely abolished."[1]

The anti-imperialist movement in Latin America, most countries of which won their independence as early as the beginning of the nineteenth century, is developing and the peoples there are stubbornly struggling against the neocolonial oppression of US and other imperialist countries' monopolies, for genuine national sovereignty and economic independence. At the same time, the class struggle against local monopolies and the owners of vast estates (latifundia) is

[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 27.

becoming fierce. The victory of the socialist revolution in Cuba has been an event of great portent in the history of the peoples of America.

The elimination of colonial regimes is drawing to a close. The Portuguese colonial empire, the last such empire, which relied on the economic and military support of the imperialists in other countries, has collapsed. Through persistent struggle, the peoples of Guinea-Bissau, the Cape Verde Islands, Mozambique, and Angola have been victorious. The struggle is still going on to end the colonial regimes in Namibia and in colonial areas in the Caribbean and the Indian and Pacific oceans, used by the imperialist powers as military bases.

In resisting the national liberation movement, imperialism stubbornly defends the remains of colonialism, on the one hand, and on the other, strives to hamper the economic and social progress of the developing countries by the methods of neocolonialism. The imperialists, however, are no longer in a position to block the path of the national liberation movement or to save the system of colonial regimes from final collapse, whether by military means or in any other way.

Under today's conditions, the national liberation movement is entering a new phase, that of struggle for economic independence. The stability of political independence depends on its outcome. Economic liberation, Lenin noted, is the main thing in national liberation.

The collapse of the imperialist colonial system occurred at a time when the forces of socialism and of the national liberation movement were uniting against the common enemy, imperialism, and this facilitated the struggle of the peoples for freedom and speeded the process up significantly. What Lenin wrote more than sixty years ago has come to pass, that national wars against imperialist powers, to be successful, "require either the concerted effort of huge numbers of people in the oppressed countries (hundreds of millions in our example of India and China), or a *particularly* favourable conjuncture of international conditions (e.g., the fact that the imperialist powers cannot interfere, being paralysed by exhaustion, by war, by their antagonism, etc.), or the *simultaneous* uprising of the proletariat against

the bourgeoisie in one of the big powers (this latter eventuality holds first place as the most desirable and favourable for the victory of the proletariat)".[1]

The consolidation and development of the world socialist system exerted a decisive influence on the growth of the national liberation movement in colonial and dependent countries. The socialist countries inspired the peoples of the colonies by their example in the struggle for independence, and are giving the new sovereign states all-round economic, technical, moral and political assistance in their development along the democratic road and in the struggle against various forms of neocolonialism. "Our Party," L. I. Brezhnev emphasised at the 25th Congress of the CPSU, "supports and will continue to support peoples fighting for their freedom. In so doing, the Soviet Union does not look for advantages, does not hunt for concessions, does not seek political domination, and is not after military bases. We act as we are bid by our revolutionary conscience, our communist convictions."[2] The struggle of the socialist countries, headed by the Soviet Union, for peace and against the danger of devastating nuclear war is of enormous significance for newly-free nations. The proletariat of the developed capitalist countries, too, has given and is giving ever increasing support to the peoples of developing countries. The national liberation movement has become one of the three major forces of the world front of revolutionary struggle against imperialism and reaction and a number of newly-free countries have taken a non-capitalist path of development.

What is new and most important in the national liberation movement today, as stated by the 24th Congress of the CPSU, is that *"the struggle for national liberation in many countries has in practical terms begun to grow into a struggle against exploitative relations, both feudal and capitalist"*.[3]

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[1] V. I. Lenin, "The Junius Pamphlet", *Collected Works*, Vol. 22, p. 312.

[2] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 16.

[3] *24th Congress of the CPSU*, p. 23.

2. NEOCOLONIALISM AND ITS METHODS

The Essence of Neocolonialism

The winning of national sovereignty is an important victory for the peoples of former colonies and dependent countries. It does not, however, signify the total liquidation of colonialism, but simply reduces the opportunities for colonial exploitation. The monopolies utilise the economic backwardness of newly-free countries, the one-sided development of their productive forces, and the domination of their key industries by foreign interests to strengthen their position, employing new methods of enslavement and plunder for this purpose. In essence, neocolonialism is the aggregate of the economic, political and military methods employed by imperialist states to maintain the economic exploitation and dependence of the peoples of developing countries that have gained state independence.

The aim of neocolonialism is to prevent the developing countries from pursuing a truly independent home and foreign policy, to prevent them from creating truly independent economies, not to allow them to take a non-capitalist course of development, and to do everything in its power to keep them within the world capitalist system. The economic foundation of neocolonialism in developing countries is foreign monopoly capital and the property of the local comprador bourgeoisie. The ideological foundation of neocolonialism is anti-communism, nationalism, racism and other reactionary theories.

Neocolonialism is the colonialism of the present period of the general crisis of capitalism, when imperialism is trying to adapt itself to the changing conditions of historical development.

The Methods and Forms of Neocolonialism

One of the commonest methods of maintaining colonial domination in countries that have won independence is to *set up puppet regimes*, i.e. to create state organs which, hiding under the national flag, serve the interests of foreign

monopoly capital (South Korea, the military fascist dictatorships in a number of Latin American countries, and so on). When the people rise up against the corrupt rulers, the imperialists intervene on the pretext of defending "freedom and democracy" to put down the liberation movement. Such was the character of the barbarous, exterminatory war of American imperialism in Vietnam. The American imperialists are trying for similar goals against Arab states, using Israeli extremists. In their struggle against nations that have taken the path of progressive independent development, the imperialists do not hesitate to use such amoral methods as economic blockade, threats to withdraw aid (including food), sabotage, diversion, criminal conspiracies, and murder of leading figures in the liberation movement.

The imperialists also make extensive use of the technique of drawing developing countries into aggressive military blocs, of concluding bilateral agreements with them on "mutual security", and the construction of military bases, ports and airfields. In addition to their clear orientation against socialist countries, the military bases serve as support points for imperialism against the growing national liberation movement and for political pressure on developing countries. In order to fulfil the military obligations imposed by the imperialists, the young states spend enormous resources unproductively, resources that could have been used for economic development.

One variety of contemporary colonialism consists of the *various "commonwealths", "communities" and "unions"* concluded by the metropolitan countries with their former colonies in order to retain their economic and political influence on them, once state independence has been established. These agreements often take the concrete form of one-sided concessions and other contracts concluded between the governments of developing countries and individual monopolies. The British mining companies operating in Africa, for example, saddled African countries, before they obtained independence, with concessions valid to the end of this century.

A special place in the policies of neocolonialism is occupied by the *export of state capital, in the form of "aid"* to developing countries. In fact, the concept of aid is incompat-

ible with the very nature of imperialism, the immutable law of which was and is the enslavement, exploitation and ruin of the weak and profit from robbing economically backward countries. Imperialist "aid" to developing countries, as we have already shown, is in fact one of the most refined forms of neocolonialism, and is used primarily to put down national liberation movements, to support and defend reactionary regimes, to divert newly-free countries from the path of non-capitalist development, and to transform them into centres of struggle against the world socialist system. The bulk of it goes for military and police needs and is linked with imperialism's aggressive plans. During the three years or more that the military fascist junta has been in power in Chile, for example, the USA has supplied that country with "aid" amounting to 2,000 million dollars. Israeli extremists annually receive "aid" of 3,000-4,000 million dollars for their struggle against the progressive forces in Arab countries.

A second major problem that the imperialists solve by "aid" is that of maintaining their dominance in the economies of countries gaining state independence and of using them, as before, as objects of exploitation. Soviet economists have estimated that the monopolies of imperialist powers annually draw off about 25,000 million dollars from developing countries, while all their investments, including reinvestments, do not exceed 8,000 million dollars a year.

Being unable to prevent the *process of industrialisation of developing countries, the imperialists are now trying to bring it under their control* and use it in their own interests. To this end, first of all, they institute "disjointed production", the initial and final stages of which take place in imperialist countries, and the "middle" one in developing countries. The latter thus come to be technologically dependent on the international monopolies that control the whole process. As a consequence, developing countries are drawn even more tightly into the capitalist system of world economy than before, and once more on an unequal footing. Secondly, there is a developing trend to transfer the most labour-intensive, material-intensive, and ecologically harmful industries to developing countries. The drive to use rich sources of raw materials and cheap labour power on the spot prompts

monopolies to transfer production that has become too expensive in the centres of world capitalism to developing countries.

All this leads not so much to development of the economies of the developing countries, as to their transformation from agrarian and raw material appendages of the developed capitalist countries of the West into industrial and raw material ones, preserving exploitation of their peoples and natural resources.

Foreign trade is of great significance in the present period in the exploitation of developing countries. Even since the collapse of the colonial system, the monopolies of imperialist countries still dominate the markets of developing countries, so that non-equivalent exchange between developing and developed capitalist countries is on the increase rather than diminishing. The prices of the raw materials exported by developing countries are falling, while those of the industrial goods supplied by imperialist states are rising. As a consequence of this change in the balance of export and import prices alone, the developing countries are losing 14,000 to 15,000 million dollars a year, which is more than double the amount of official economic aid extended to them through the United Nations and other international organisations (some 7,000 million dollars a year).

State-monopoly forms of exploiting developing countries are spreading. The more the imperialist states lose political influence in former colonies and dependent countries, the greater the role they assume in these countries' economic enslavement, i.e. in fulfilling all the functions that were previously the sphere of private monopoly capital.

Collective forms of neocolonialism are being developed through the establishment of international finance and credit organisations (the International Bank for Reconstruction and Development, the International Monetary Fund, the General Agreement on Tariffs and Trade, etc.), and also by drawing developing countries into closed economic groupings of imperialist powers (for example, as associate members, without rights, of the Common Market).

Foreign monopoly capital is merging with national capital in order to use the latter as a junior partner in intensified exploitation of the working people of developing countries,

mainly through setting up "joint" companies with a national façade, but really under the control of foreign monopoly capital.

Consequently, imperialist states still have not rejected the policy of economic enslavement of developing countries and of intensified exploitation of these peoples by foreign monopoly capital.

The main bulwark of modern colonialism is the imperialism of the United States of America. It is the US imperialists who finance most of the operations directed at suppressing the national liberation movement throughout the world and who supply the colonialists and reactionary groups in developing countries with arms.

3. THE TWO PATHS OF DEVELOPMENT OF YOUNG NATIONAL STATES. SOCIAL AND ECONOMIC CHANGES IN DEVELOPING COUNTRIES

The Social and Economic Structures of Developing Countries

Countries gaining political independence inherit an economic backwardness resulting from age-long colonial rule.

One indication of their backwardness in the sphere of production relations is their *multistructural* economies. They all have the following economic structures or types of production: (1) subsistence, (2) small-scale commodity production, (3) capitalist. In some countries, primitive-communal and feudal modes of production are also still in evidence, though hardly anywhere in their pure form, since they have undergone considerable changes under the influence of commodity-money relations.

The balance between these structures in each country depends on historical conditions, on the level of development of the productive forces, on the existence of vestiges of feudal relations, on the degree to which foreign capital dominates, and so on. The private capitalist sector occupies a strong position in some developing countries and is expanding at the expense of small-scale commodity production; it

is supported by foreign monopoly capital as a prop for its own infiltration into the economy of the country. In many developing countries, small-scale commodity production predominates, and is represented by the peasantry, artisans and handicraft workers. In several states in Africa and Oceania, a considerable proportion of the population is still engaged in subsistence farming.

The state or public sector, based on state ownership, occupies a special place in the economies of developing countries. It is formed both by nationalisation of large capitalist, and above all foreign, property and by the building of state enterprises. It develops along different lines in different countries. In those developing toward capitalism, it assumes the features of state capitalism and does not represent an independent social structure in character, since state power is in the hands of the bourgeoisie; but it reflects the economic need for centralisation of resources so that the economy can develop more rapidly. The public sector also speeds up creation of the necessary material preconditions for the revolutionary transition to socialism, and in that it is progressive.

In the public sector of the economy, favourable opportunities arise for regulating economic processes; but the spontaneous growth of capitalist relations in many developing countries, and the instability of the market situation in the world capitalist economy, make such regulation extremely difficult. In many countries, it consists simply of programmes for state investment.

In countries taking a non-capitalist path of development, the public sector is the economic basis for implementing revolutionary and democratic policies. It also promotes development of the economy in the interests of all the people and gradually takes on a new social and economic content, including an anti-capitalist tendency. In the long run, given favourable conditions, it may serve as the basis for establishing socialist ownership of the means of production.

As was noted at the 25th Congress of the CPSU, there have been fundamental changes in recent years in many developing countries: "Shifting of the centre of gravity in industrial development to the state sector, abolition of feu-

dal landownership, nationalisation of foreign enterprises to assure the young states' effective sovereignty over their natural resources, and formation of their own personnel. In short, far-reaching progressive changes are taking place in that part of the world, despite difficulties."[1]

The Economic Backwardness of Developing Countries

The economies of most developing countries are dominated by backward farming. Industry is little developed. The developing countries of Asia, Africa, and Latin America, where over 70 per cent of the population of the capitalist world lived in 1975, produced only 12 to 14 per cent of its industrial output, according to UN estimates. In spite of the rapid development of the power industry (including nuclear power), steel, engineering, chemical, oil-refining, and other progressive industries in individual countries (India, Iran, Algeria, and Mexico), the extractive industries account for a large and growing proportion of industrial output in the developing countries as a whole. Their share in the mining in the non-socialist world increased from 17 per cent in 1938 to 45 per cent in 1974.

Developing countries have still not overcome the one-sided development of their economies. In Sri Lanka, for example, about 60 per cent of its foreign exchange in 1974 came from the export of tea. The Philippines in the same year obtained 75 per cent of its foreign exchange from the export of sugar. In 1974, 72 per cent of Ghana's receipts from all exports came from cocoa.

The extremely low productivity of labour in developing countries results in a low level of national income. While national income per capita in the USA in 1974 was 3,783 dollars, in the Federal Republic of Germany (1973) 3,270 dollars, in France 2,670 dollars, in Japan 2,235 dollars, and in Great Britain 1,640 dollars, in the developing countries

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 15.

it did not exceed on the whole 200 dollars, including, for example, 135 dollars in Thailand, 120 dollars in the Philippines, 68 dollars (1971) in Ethiopia, 65 dollars in Tanzania, and 51 dollars in Zaire.[1]

Economic backwardness is the reason for the extremely low standard of living of the working people of developing countries, where the population suffers from constant malnutrition, lack of sufficient number of schools and hospitals, a shortage of doctors and teachers, and a very high level of illiteracy. Of the more than 2,500 million people in the developing countries, 800 million are illiterate, and 1,000 million suffer from malnutrition or hunger. The average life expectancy in India, for example, is 45 to 47 years and in Senegal 37 years.

The peoples of the newly-free countries have no desire to put up with such backwardness, and are persistently looking for ways to overcome it and to create a developed economy and culture.

The Two Paths of Development and the Necessity of the Non-Capitalist Path

During the struggle of liberated countries against colonialism and neocolonialism, each of them faces the question of what course its further development should take. In the world today there are two systems—the capitalist and the socialist. Capitalism is increasingly discrediting itself in peoples' eyes. It does not ensure the economic independence of peoples now free from colonial oppression, and they are becoming convinced by their own experience that the capitalist way does not bring true liberation. "Countries which have taken the capitalist road have been unable to solve any of the basic problems facing them,"[2] the 1969 International

[1] According to the scientific method of calculating national income, i.e. without double counting of incomes received in the non-productive sphere.

[2] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 29.

Meeting of Communist and Workers' Parties said, and most of them are not in a position to overcome their economic backwardness or their dependence on imperialist countries.

The peoples of countries newly-free from colonial dependence are, therefore, drawn toward socialism, correctly seeing in this social system their only chance of solving all their economic and social problems.

"The Afro-Asian and Latin American peoples," as L. I. Brezhnev said at the Conference of European Communist and Workers' Parties in Berlin in June 1976, "are undoubtedly increasing their contribution to the cause of peace and progress. Socialism has already struck deep root in many countries which have thrown off imperialism's colonial yoke and which have embarked on free and independent development. The non-alignment movement, which we all know, plays a considerable role in international life."

The radical changes in the balance of forces in the world in favour of socialism and to the detriment of capitalism have opened up an objective possibility for countries freed from colonialism to take a non-capitalist path of development. During the struggle for the revival of their economy and national culture, the peoples of several of the newly-independent countries have already taken the non-capitalist path of development, which will enable them to do away with the backwardness bequeathed by their colonial past and to create the conditions for the transition to socialist development. Their socialist orientation is making its way, overcoming great trials and obstacles. And thanks to the existence of the world socialist system and to its unselfish economic, technical, political and cultural assistance to peoples struggling against imperialism, this prospect is becoming a reality.

The experience of building socialism in the USSR and in the other countries of the socialist system, particularly in the national republics of the Soviet Union and in the Mongolian People's Republic, where pre-capitalist relations previously existed, is of enormous value to countries that have chosen the non-capitalist path of development. Their example is of special value for the peoples of Africa and Asia.

Basing themselves on the experience and support of the

socialist states, the countries taking the non-capitalist road are struggling against imperialism for full political and economic independence, carrying out progressive social and economic reforms, and taking steps to raise the material and cultural level of their people, and are in the front rank in the contemporary national liberation movement.

Regimes and political organisations carrying out progressive measures are under pressure from internal and external reaction. One example are the imperialist provocations against progressive governments of the newly-liberated countries; another is the anti-popular activity of rightist forces in the Arab Republic of Egypt against the social and political gains of the Egyptian revolution.

The degree and consistency of social transformations in newly-independent countries, and the possibility for their peoples to choose their own course of development, depend on the alignment and the internal balance of class forces; but, despite the motley character of the concrete historical conditions under which their struggle is taking place, they have a number of features in common. Objective necessity forces them to take certain measures, without which there can be no successful struggle against colonialism, for revival of the national economy, or social progress. Let us consider the most important of these.

Evicting Foreign Capital from Its Positions

Elimination of the dominance of foreign capital usually begins with nationalisation of enterprises belonging to the monopolies of the imperialist powers. This measure is fully justified since the property of the monopolies represents the capitalised surplus value, created by the labour of the peoples of the countries concerned. Such nationalisation has taken place, for example, in Iraq, Algeria, Syria, India, Guinea, Peru and other countries. It was done in different ways, both through confiscation of the property of foreign capitalists without compensation and through compulsory purchase.

Another way of limiting the activity of foreign capital is to ban investment in certain branches of the economy and

to declare them the exclusive sphere of activity of the state. Yet another way of limiting and controlling foreign capital is to set up joint enterprises, with a predominance of national capital, the progressive forces employing foreign resources, technical expertise and personnel to develop their economies. The founding of joint enterprises is a sort of compromise between national and foreign capital, adopted with the aim of promoting economic development. Foreign capital, in turn, is striving to regain its lost positions in a number of cases through this same form.

In several developing countries, limits are set on the profits that foreign monopolies can export, the transfer of profits in the currencies in short supply ("hard" currencies) is prohibited, and higher income taxes are levied. One form of struggle for economic independence and the right to dispose of their own natural resources in developing countries is the setting up and operating of inter-state organisations by these countries, such as the Organisation of Petroleum Exporting Countries (OPEC), founded in 1960.

The state sector is of growing importance in fighting the dominance of foreign capital. Nationalisation of foreign monopoly property and limitations on foreign capital help strengthen the position of the state sector. By nationalising the main means of production the state gradually gains possession of the most important levers for influencing economic life as a whole. And the efficiency of the taxation, customs, currency and concession measures taken to ensure development of the national economy largely depends on the social and economic orientation of the governments of developing countries and the alignment of class forces.

The Problem of Industrialisation in Developing Countries

The restructuring of the economy of developing countries and the establishment of their own industries have become vital problems, solution of which helps ensure economic independence. The development of industry encourages the raising of labour productivity in all branches of the economy, speeds up the rate of accumulation and growth of national

income, and serves as the basis for the development of agriculture and of the productive forces in the village. At the same time, it makes it possible to utilise the latent overpopulation and turn it into an active industrial army of labour.

Imperialist states hold back the development of the national industry of newly-free countries, as their interests lie in maintaining the one-sided character of their economies, and in retaining them as appendages supplying raw materials. The numerous recommendations of bourgeois economists and politicians consist either in diverting the attention of the peoples of developing countries from the fundamental task of building up a national industry or dragging its solution out over a long time.

In several of the newly-free countries that have taken a non-capitalist path of development the state sector, formed as a result of nationalisation of the property of foreign monopolies, has been the basis for setting up their own national industry, and has ensured growth of state capital investment on developing the economy and laid the foundations for industrialisation.

There has been some increase in the rate of growth of industrial production in developing countries. By 1975, industrial production in developed capitalist countries had increased by 210 per cent over 1950, and in the developing countries by 540 per cent. The mean annual rate of growth in the latter is 7.7 per cent, as against 4.6 per cent in the developed capitalist countries. At the present economic growth rate and rapid increase of population in developing countries, it will take them 100 to 150 years simply to reach the level of per capita gross national output already existing in developed capitalist countries. The gap in production of per capita gross national product between developed and developing countries increased from 740 per cent in 1953 to 1,500 per cent in 1973, which confirms the conclusion of the 1969 International Meeting of Communist and Workers' Parties that the gulf between the highly developed capitalist states and the majority of other countries in the capitalist world is not closing, as the ideologists of the bourgeoisie claim, but widening. For the developing countries to catch up, the growth rate of their industry needs to be raised considerably and all the channels closed through which they

are plundered by the imperialist powers and through which the parasitic elements within them grow rich.

Acceleration of the process of industrialisation gives rise to a need for loans and for technical aid from more developed countries; but the attraction of monopoly capital on a large scale entails the danger of new entanglements, so that the state needs to exercise very careful control over its use.

Agrarian Reforms in Developing Countries

Radical agrarian reforms in favour of the peasantry are of primary significance for resolving the social and economic problems facing developing countries. Their objective necessity is dictated by the fact that these countries are agrarian ones with 70 to 80 per cent of the population living in the village. In many countries in Asia, Africa and Latin America, there are still fairly strong survivals of feudal relations. In the Philippines, for example, a small group of landowners own more than half of all the cultivated land. In Latin America, 70 per cent of the peasants do not have their own land, while those who do, hold only 5 to 10 per cent of the land. The peasants have to hold land on lease, and in most cases, rentals fluctuate between half and two-thirds of the harvest on irrigated land and from a quarter to one-third on non-irrigated land. If the landowner supplies cattle or tools, the rental may be three-quarters or even four-fifths of the harvest.

The landowners also frequently act as usurers or middlemen between the peasants and the monopolies, buying up agricultural raw materials, which adds to the already heavy burden of foreign capital. Sub-letting is common. It is mainly the rural bourgeoisie who act as sub-letters and usurers. In India, for example, until recently, between 50 and 80 per cent of the peasants' commodity output was sold through middlemen who, depending on the market conditions, appropriated between a quarter and two-thirds of value of the produce.

The elements of feudal relations, the peasantry with little or no land, and the single-crop orientation of agriculture are

obstacles to solving the developing countries' food problem. Growth of agricultural production is everywhere lagging behind growth of requirements. The developing countries have about two-thirds of the capitalist world's cultivated land and area under cereal crops, and more than 70 per cent of its cattle. The low productivity of the cultivated land and of the cattle is the reason why, in 1974, the developing countries harvested only 47.3 per cent of the total grain crop (including rice) in the capitalist world and produced 26 per cent of the meat, 22 per cent of the milk, and 23 per cent of the eggs. Their per capita production of grain was 40 per cent that in developed countries, and of meat, eggs and milk 11 to 15 per cent.

Agrarian overpopulation makes the situation worse. The low standard of living of the population of developing countries, for whom malnutrition is normal, is a result of the combined effect of the backwardness of agriculture and agrarian overpopulation. Hunger and famine become particularly acute in years of crop failure, when the dependence of their backward agriculture on weather conditions becomes especially evident.

Dispossession of the big landowners and foreign planters and latifundists and fundamental agrarian reforms in the interests of the landless peasantry are indispensable conditions for development of the productive forces of a country, and abolition of unemployment, poverty, and hunger among the broad masses.

The peasants oppose the domination of the colonialists and landowners. The national bourgeoisie is also, to some extent, interested in carrying through agrarian reforms so as to speed up the development of capitalism and expansion of the home market, but fearing a revolutionary uprising of the peasant masses would hit not only the feudal order, but also affect the positions of capital, it often reaches a compromise with the landowners. The agrarian reforms in most developing countries have therefore not yet been very radical, the landowners as a rule only giving up the worst land and the reforms often entailing rather high compensation to be paid by the peasants. The size of peasant holdings has therefore remained practically unchanged. Nevertheless large-scale feudal landed property has been curbed by the reforms, para-

sitic revenues of feudal lords curtailed, and the holdings of foreigners eliminated or limited. The broadest reforms have been carried out in countries that have taken a non-capitalist path of development such as Burma, Syria, and Algeria. In the People's Republic of the Congo, all land and mineral wealth have been declared state property.

In the most progressive of the developing countries, the state provides strong support for the development of agricultural co-operation and of the state sector in the rural areas. The peasants are provided with funds to buy cattle, seed and tools, and are given financial, organisational and technical aid in setting up production co-operatives.

The Significance of Assistance from the Soviet Union and Other Socialist States

The socialist states co-operate with the developing countries and are giving them ever increasing economic and technical assistance. The objective basis of this co-operation is the fact that the world socialist system has interests in common with the national liberation movement in the struggle for peace and against colonialism and imperialist oppression in all their forms.

As the resolution of the 24th Congress of the CPSU said: "The CPSU is invariably true to the Leninist principle of solidarity with the peoples fighting for national liberation and social emancipation. As in the past, the fighters against the remaining colonial regimes can count on our full support. The Congress attaches special importance to extending co-operation with countries taking the socialist orientation."[1]

In accordance with agreements concluded, around 2,000 industrial and agricultural enterprises, workshops, complex installations and units, and other projects have been built, are being built or are planned in developing countries with the socialist countries' assistance. The Soviet Union has

[1] *24th Congress of the CPSU*, p. 215.

agreements on economic and technical co-operation at present with more than 50 developing countries. The volume of its economic and technical assistance to countries in Asia, Africa and Latin America is constantly growing. In India, for example, 68 large industrial enterprises, farms and educational institutions, including steel works in Bhilai and Bokaro, a heavy engineering works in Ranchi, and an electrical engineering works in Hardwar have been or are being built with Soviet aid. In Algeria 45 projects had been built with Soviet aid and commissioned by the beginning of 1975, in the Arab Republic of Egypt 86, in Afghanistan 67, in Iraq 43, in Iran 43, in Syria 15, and so on.

The effectiveness of this assistance should not be judged in absolute terms alone. In evaluating it and comparing it with the economic links existing between developing countries and imperialist powers, it must be remembered that the world socialist system renders assistance primarily to help resolve the main strategic problem of eliminating economic backwardness and dependence on imperialism. The character and significance of the USSR's economic and technical assistance to developing countries is seen clearly in its being directed to the main branches of the economy (in percentages as of January 1, 1974): industry and power 73.8 (including metallurgy 37.6), geological prospecting 8.2, transport and communications 8.1, agriculture 5.3, education, health and other fields 4.6.

By helping new states to resolve their major economic problems, the socialist countries are compelling foreign monopolies and governments to make certain concessions in their relationships with developing countries. The building of the Bhilai steel works in India by the Soviet Union, for example, forced the monopolies of imperialist countries to meet the demands of other countries (Pakistan, Tunisia, Ethiopia) for the building of similar works. British and US monopolies refused to help India build national oil enterprises; the Indian Government itself built them in the end. Soviet aid to India and Syria in prospecting for oil and organising the exploitation of oil fields gave the national oil industries their start.

A distinctive feature of the assistance given by socialist countries is the construction of economic complexes in key

branches of the economy that make efficient use of national resources a possibility. Unlike the imperialist powers, socialist countries never demand a proportion of the shares of these enterprises. The country receiving the aid becomes the complete owner of the project built.

Socialist states adhere to the most-favoured nation principle in relation to developing countries and do not erect artificial trade barriers. Trade takes place on the basis of long-term inter-governmental agreements that give the developing country a firm guarantee on the export and import of certain commodities for several years ahead, which has a favourable effect on its economic development. The volume of the USSR's trade with developing countries increased 45-fold (in comparable prices) in the post-war period (i.e. in 1976 compared with 1946). In trying to render assistance to backward countries through the channels of foreign trade, the socialist countries often buy more goods from them than they sell to them.

Developing countries, receive credits from socialist states for the development of their economies. The credit extended differs fundamentally from that granted by capitalist countries, both in nature and intent. Its aim is not to extract high interest, but to promote in every way strengthening of the economic potential of the country receiving the credit. The credits themselves are granted on the basis of inter-governmental agreements over 12 to 15 years at a rate of 2.5 to 3 per cent per annum.

The socialist countries help developing countries in every way with the training of local, national cadres, mainly technical personnel, both by organising various educational establishments locally and the training of local personnel during the building of various projects and also by education and training in higher educational establishments and enterprises in the socialist countries. In the Soviet Union alone, about 80,000 specialists with higher qualifications had been trained for developing countries till 1975, and more than 15,000 were studying in higher educational institutions of the USSR in the 1975/76 academic year. Engineers and workers from developing countries, moreover, are given production and technical training at more than 150 leading enterprises of the Soviet Union. Over 140 educational insti-

tutions (institutes, technical colleges, technical and secondary schools, and study centres through which 100,000 students have received training in fields most needed for development of the national economy) have been or are being founded with Soviet aid. In recent years alone, Soviet specialists have helped to train more than 200,000 skilled workers and foremen on construction sites in developing countries.

The Soviet Union and other socialist states also give the developing countries considerable moral and political support within the United Nations Organisation and other international organisations.

The all-round economic ties and other links between developing countries and the world socialist system facilitate the struggle of the former to eliminate the grave consequences of colonial exploitation and for social reforms.

The Historic Significance of the Collapse of the Imperialist Colonial System

The collapse of the colonial system of imperialism is of great historic significance. *"The breakdown of the system of colonial slavery under the impact of the national liberation movement is a development ranking second in historic importance only to the formation of the world socialist system,"*[1] said the statement adopted by the 1960 Meeting of Representatives of the Communist and Workers' Parties.

The break-down of the colonial system fundamentally weakened the position of imperialism and altered the balance of power in the struggle between developing socialism and moribund capitalism in favour of socialism. Imperialism lost its undivided sway over the fates of the hundreds of millions of people living in newly-free countries. The break-up of the colonial empires and the achievement of political independence by former colonies and semi-colonies created the necessary preconditions for overcoming the considerable

[1] *The Struggle for Peace, Democracy and Socialism*, Moscow, 1963, p. 61.

economic backwardness of dozens of newly-formed states and for the national and social regeneration of their peoples.

"The foreign policy of the developing countries has become visibly more active," L. I. Brezhnev said at the 25th Congress of the CPSU. "This is seen in many trends—the political course of the non-alignment movement, and the activity of the Organisation of African Unity and of the various economic associations formed by the developing countries. It is quite clear now that with the present correlation of world class forces, the liberated countries are quite able to resist imperialist diktat and achieve just—that is, equal—economic relations. It is also clear that their already considerable contribution to the common struggle for peace and the security of the peoples is quite likely to become still more substantial."[1]

Having gained political independence, the countries freed from colonial oppression are, one by one, ceasing to be obedient tools in the hands of the imperialist powers in the solution of international problems. In 1945, there were 51 member states of the United Nations; on December 1, 1975, there were 132, including more than 90 developing countries. The new sovereign states are becoming a powerful force in the world today. They are developing closer and closer ties with the socialist countries, receive vital political and diplomatic support from them and increasingly frequently join forces with them in fighting the intrigues of imperialism and reaction and for peace and democracy.

The decline and fall of the colonial system has shaken the foundations of imperialism and is bringing it closer to its final doom. The national liberation movement of peoples fighting against colonial and neocolonial oppression is one of the three powerful revolutionary forces shaking capitalism and driving the world revolutionary process ahead. The influence of the national liberation movement on the fate of the world largely depends on its links with the world socialist system and with the revolutionary working-class movement in developed capitalist states.

"The great Lenin's prediction that the peoples of the colo-

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, pp. 16-17.

nies and dependent countries, starting with a struggle for national liberation, would go on to fight against the very foundations of the system of exploitation is coming true," the 24th Congress of the CPSU stated in 1971. "And this, of course, is a heavy blow at the positions of capitalism as a whole, as a world social system."[1]

[1] *24th Congress of the CPSU*, p. 25.

Chapter 16

SPECIAL FEATURES OF OPERATION OF THE LAW OF SURPLUS VALUE UNDER CONTEMPORARY CAPITALISM

1. THE ESSENCE OF MONOPOLY PROFIT

The replacement of free competition by monopoly domination and the subsequent development of monopoly capitalism into state-monopoly capitalism has not stopped the economic laws of capitalism from operating, but has simply modified their forms. The basic economic law of capitalism is the law of surplus value, which operates at all stages of development of the capitalist mode of production.

The Difference between Monopoly Super-Profit and Super-Profit under Free Competition

Surplus value appears, as we have seen, in its transmuted form, as profit. Pursuit of the highest possible profit is characteristic of capitalism. Every capitalist always strives for it. Under pre-monopoly capitalism, free competition, however, led ultimately to approximately the same average rate of profit in different industries for the same amount of capital. Individual capitalists managed, by introducing new equipment and new ways of exploiting wage labour, to reduce the individual value of commodities compared with their social value and so derived super-profit, i.e. a surplus over and above average profit. Competition, however, did not permit them to receive this surplus for any long period of time.

Under imperialism, the situation has changed fundamentally. The monopolies that occupy the leading positions in the sphere of production and circulation, constantly derive

super-profit which is special, monopoly super-profit differing from normal super-pront in being based on their dominance and is the result of monopolistic exploitation not only in industry but also in the other spheres of the capitalist economy. Both the old, capitalist methods of exploitation and the new, imperialist ones, are used to obtain these profits. Pre-monopoly, normal super-profit is a part of surplus value, the result of the surplus labour of workers. Monopoly super-profit is not reduced solely to the surplus value produced in the monopolised undertakings, but includes, in addition, part of the surplus value of non-monopoly enterprises, part of the value of labour power, and a significant part of the value created by small commodity producers in the given country and also in other countries, especially developing ones.

When monopolies introduce new equipment and technology into their undertakings, they should, of course, receive normal super-profit, but it too bears the imprint of monopoly, since most of the patents on new inventions and processes and the most highly skilled technical staff and labour force are concentrated in the hands of the monopolies. Competitors are largely deprived of the chance to use these achievements of science and engineering in their enterprises. Even normal super-profit is therefore consolidated by the monopolies, becomes their privilege, and is transformed into monopoly super-profit.

Monopoly super-profit can also be obtained, as a result of monopoly prices, without technical innovations, or even if technical progress slows down. Individual capitalists can obtain normal super-profit, but monopoly super-profit can only be obtained by monopolies. Normal super-profit is spasmodic and temporary in nature, while monopoly super-profit is much more stable.

On the whole, monopoly profit consists of average profit plus monopoly super-profit. Monopolist entrepreneurs, like all capitalists in bourgeois society, receive average profit on their capital; but, as monopolists, they receive additional monopoly super-profit.

The imprint the domination of monopoly leaves on average profit and how the mechanism by which it is formed changes will be explained below.

The Economic Content of Monopoly Profit

The dominance of monopoly is the all-round sway of a handful of very big monopolists over all spheres of the economics, politics, and ideology of capitalist society. Monopoly profit should therefore not be understood as some separate form of surplus value alongside profit of industry and trade, or dividends and interest. Monopoly profit is a complex and synthesised form of the income of monopolies, derived from all spheres of the economy through exploitation of all strata of the working people of the capitalist world. Monopoly profit is based on monopoly capital's dominance of the non-monopolised sector of the economy, on the subordination and use of small-scale, scattered production, and on the exploitation of economically underdeveloped countries.

Qualitatively, *high monopoly profit is the economic form of the realisation of monopoly domination.* Quantitatively, it is always higher than the normal profit of the non-monopolistic bourgeoisie, i.e. is monopolistically high.

Monopoly profit reflects the complex set of production relations in the epoch of imperialism. Under pre-monopoly capitalism, average profit reflected the production relations between the whole capitalist class and the whole class of wage workers, and the relations between the capitalists themselves in their struggle for the biggest share of the mass of surplus value. High monopoly profit reflects the production relations between the monopolistic bourgeoisie, on the one hand, and all workers and small commodity producers of their own country and the working people in economically less developed countries, on the other hand. It also reflects the relations between the monopolistic and the non-monopolistic bourgeoisie, and between the monopolists themselves, fighting for the biggest share of the total mass of profit.

Bourgeois economists and reformists conceal the exploitative and parasitic essence of monopolies either by keeping silent on the subject of monopoly profit or by making an unsubstantiated denial of its existence. Generally, they depict monopoly profit as normal super-profit engendered by technical progress in large enterprises, and so, to please the

monopolistic bourgeoisie, deliberately misrepresent the essence of monopoly profit and its class content.

2. METHODS OF DERIVING MONOPOLY PROFIT

Intensified Exploitation of the Proletariat

The initial source of monopoly profit is appropriation by monopolists of the surplus labour and a significant part of the necessary labour of the workers in material production.

The dominance of monopoly leads to an increase in the degree of exploitation of labour in the production sphere, the monopolies striving above all to increase the amount of surplus labour of the wage workers. To that end, the monopolists improve and intensify their methods of obtaining absolute and relative surplus value, and in pursuit of super-profit spend large amounts on research, buy up patents on new inventions, and improve the organisational forms of production.

The apologists of imperialism seek to console the proletariat with the fairy-tale that new technology, by replacing human labour, supposedly liberates the workers from exploitation and itself creates the owner's profit. In automated works, only two or three men are on duty on each shift but the profits are immense. This means, they say, that Marx's conclusions on exploitation of workers being the sole source of capitalists' profits are "outdated".

Where do the profits of the owners of highly mechanised and automated enterprises come from then?

(1) The owners of enterprises equipped with new sophisticated machinery obtain super-profit as a result of the difference between their costs of production and those of enterprises with an average level of technical equipment, in this case appropriating part of the surplus value created by the workers in the less up-to-date enterprises.

(2) Under monopoly conditions, a sharp increase in labour productivity does not lead to a corresponding fall in prices so that, even when the new technology spreads throughout capitalist enterprises and the social value of the commodities falls, the monopolies' profits remain at the same high level.

(3) The circle of people involved in producing commodities in automated works consists of far more than just the workers employed directly in the production process. The higher the level of technology, the more essential various auxiliary work becomes. Highly mechanised production is out of the question without various research institutions and laboratories and without an increase in the numbers employed in them.

Consequently, when new technology is used, exploitation is not lessened, but expands, and the number of workers exploited by the monopolies increases rather than decreases, which means that the mass of surplus value appropriated by the monopolies also grows. All the ways and methods of developing technology used by monopolies are directed toward a single goal, higher profits.

The most important method of deriving monopoly superprofit is intensification of labour. By means of various measures, the monopolies are constantly compelling workers to increase their expenditure of labour per unit of time and thereby to increase the volume of output. The introduction of new technology and of mechanisation and automation in general in monopoly enterprises is accompanied not only by a rise in the productivity of labour but also by an increase in its intensity. Both bring the monopolists enormous super-profits; but in many cases, the monopolies intensify labour without introducing any technical innovations.

In the days of pre-monopoly capitalism, the main methods of intensifying labour were to increase supervision and control over work, to increase the number of machines that workers had to tend and to establish piece-rate payment. Along with the old methods, the monopolies have adopted new ways of increasing the intensity of labour. The commonest is to speed up conveyor belts (on flow lines) or the overall work rhythm in all sections of production. The most detailed time-and-motion studies are carried out using electronic instruments and other apparatus. Workers are fined for the smallest loss of labour time and sometimes sacked.

The very character of the intensification of labour has altered under modern conditions. It usually used to mean an

increase in expenditure of muscular energy. At the present level of technology, it may not involve increased expenditure of physical labour, but the nervous tension is much higher, which is a worse form of intensification, as it has a more damaging effect on labour power.

Monopolists try to find and introduce methods of intensifying exploitation that bear no external resemblance to ways long ago unmasked and that would seem like more "humane" relations between capitalists and workers. Thus the old, classical sweating systems of Taylor, Gantt, Rowan, and Halsey in the USA, for example, have gradually dropped out of use. The systems that have taken their place, however, while outwardly seeming liberal, in reality ensure a higher level of intensification. Thus, the present time-rate system in imperialist countries, in conjunction with the practice of so-called human relations, ensures a greater intensification of labour than the piece-rate systems previously employed.

The intensity of labour often reaches such a level that it cannot be compensated in any way by improvement in the workers' standard of living. In other words, labour power is directly destroyed in the interests of higher profit. The steady growth of cardiovascular and psychoneurotic illnesses among workers and the increase in the number of industrial accidents are eloquent evidence of this.

The traditional piece-rate systems, which still play quite a significant role, are being fundamentally altered. The latest piece-rate sweating systems differ in being extremely complex, both in the calculation of norms and of wages. Thus, the old Bedaux system now uses a scale of 26 points and a host of coefficients to evaluate jobs, including such factors as the worker's "moral qualities", "comradely spirit", "prestige", "enjoyment of responsibility", and so on. They make it extremely difficult for workers to understand their actual wages and give the monopolists the chance to be completely arbitrary over wages. All the most recent wage systems (the system of "analytical job evaluation", "profit-sharing", group piece work, etc.) are aimed at enabling the monopolies to obtain as high super-profit as possible by increasing labour intensity to the extreme, and, at the same time, countering the growing organisation and cohesion of

the proletariat. All these systems are presented as signs of "human relations", "social partnership", and so on.

The employment of foreign workers to do heavy and unhealthy work has become widespread in monopoly enterprises in Western Europe. In the FRG, for example, there were around two million such workers in 1973 (mainly Turks, Greeks, Spaniards and Italians). They comprised 14 per cent of those employed in industry and 25 per cent in construction jobs. As a rule, they are paid at the lowest rates, deprived of all bonuses (which constitute 40 per cent of real wages for the national workers) and live under much worse conditions. It is not by chance that even the bourgeois press calls foreign workers the "negroes of Europe". Exploitation of immigrants and foreign workers yields West German, British, French, and other imperialist countries' monopolies enormous super-profits.

Given the domination of monopolies, the introduction of new technologies into their enterprises and the raising of productivity and the intensification of labour enable monopolies to consolidate the super-profit so obtained and to convert it into a stable source of monopoly profit.

By raising the intensity and productivity of labour, monopoly capital also intensifies the degree of exploitation of the working class. The rate of surplus value (s') in the manufacturing industry of the USA has been calculated by Soviet economists to be approximately 350 per cent at present.

The increase in the intensity of labour raises the value of labour power and should be accompanied by a corresponding rise in workers' wages; but in reality wages either do not grow at all or do so to a lesser degree than work tension increases.

Apart from the surplus value created by wage workers, the monopolies appropriate a significant proportion of the value of labour power. The growth of relative overpopulation promotes a lowering of wages in comparison with the value of labour power. No one has defined the value of the commodity labour power in the capitalist world, but a so-called subsistence minimum is calculated for the average American family. According to official US statistics, a quarter of American families at the beginning of the 1970s had an annual income 50 per cent below the "poverty line", while more than

30 million Americans had an annual family income of only a third of this level.

According to the Brookings Institution, the poorest 20 per cent of Americans receive only 3.2 per cent of the US national income, while the rich 20 per cent of Americans receive 46 per cent, and the richest 5 per cent alone appropriate 19.1 per cent of the national income.

Monopolisation in the Sphere of Circulation. Intensification of the Exploitation of Small Commodity Producers

Under imperialism, the sphere of circulation plays an important role in providing monopoly profits. The domination of monopolies in the economy results in a significant share of the value and surplus value created in the various sectors of production being redistributed through the sphere of circulation in favour of the monopolies. Monopoly prices play a leading role in this.

In Marx's definition, *a monopoly price is one that exceeds the price of production and value of commodities.* In order to maintain selling prices at their monopoly level and to prevent supply from exceeding demand, monopolies strive so to regulate their production as to keep up market tension. They resolutely oppose the invasion of new home or foreign capital into their industry, and by buying up patents on new techniques and technology they prevent new inventions and processes from coming into common use and so counter any fall in price. Such methods help them maintain the prices of their products at a high monopoly level and redistribute the value created in the various spheres of production in their own favour.

At the same time, monopolies buy commodities from small producers and non-monopoly capitalists (outsiders) at monopoly low prices, i.e. at less than their value and price of production.

Each monopoly strives for unlimited and continuous price increases on its own commodities; but its drive comes up against objective limits set by the law of value and the other economic laws of capitalism. The non-monopolised

sector of the economy cannot be finally eliminated by the monopolies because then the foundations of their own domination would be undermined. That means that high and low monopoly prices cannot be used to redistribute all the surplus value created in the non-monopolised sector in favour of the monopolies. Redistribution, however, does take place, without doubt, and a fundamental one at that, which significantly cuts the rate of profit on non-monopolised capital.

High monopoly prices can exist not only with rising selling prices, but also when they are constant or even falling. The monopolies can maintain prices constant even when value is decreasing. The price of a commodity is a monopoly price, when its selling price is falling, provided its value is dropping even more rapidly.

The specific nature of a monopoly price is that two dialectically connected but opposing forces operate on it directly, competition and monopolisation. The force of competition works objectively to convert a monopoly price into an ordinary market price, i.e. to bring it close to value, or, rather, to the price of production. The force of monopolisation, on the contrary, works to make a monopoly price deviate as much as possible from the price of production. The higher the degree of monopolisation and the stronger the monopoly, the more monopoly price exceeds the price of production and the greater the monopoly superprofit.

High monopoly prices are associated with additional exploitation of the working class as purchaser of commodities belonging to the monopolies. During the circulation of commodities, the monopolies draw off an additional proportion of the necessary labour of workers and convert it into a source of monopoly profit.

With the help of the price mechanism, the monopolies rob and ruin small commodity producers. The "scissors" of monopoly prices consists in small producers being compelled to sell their output at monopoly low prices and to buy industrial goods at monopoly high prices.

Peasants and small farmers usually produce a product that requires further processing in an industry that is exclusively in the hands of the monopolies. The latter buy

up the output of the small producers at low monopoly prices and sell it in processed form at high monopoly prices to the urban consumer. Some of the difference between the consumer's expenditure on foodstuffs and the farmer's share consists of the costs of processing, but a larger proportion is monopoly profit. The practice of fixing monopoly prices is a double robbery of both the producers and the consumers.

In buying agricultural machinery, equipment, fertilisers, and so on, from monopolies, at high monopoly prices, the small producers lose yet another part of the value they have created. The "price scissors" leads to a significant cut in the real incomes of those who till the soil. In 1974 alone, for example, the incomes of farmers in the USA fell in current prices by 17.6 per cent compared with 1973, and significantly more, by 29.6 per cent, in constant prices.

The peasantry are plundered and ruined under imperialism also by usury, especially by mortgages.

Because of the technical progress of agriculture in industrially developed capitalist countries in the post-war period, monopoly capital is no longer content with exploiting the peasantry through the sphere of circulation (the "price scissors", credit on dictated terms, and so on), but is increasingly penetrating directly into the sphere of agricultural production, with so-called vertical integration of agriculture and industry taking place. In signing contracts with farmers and extending credit to them, food monopolies, for example, determine the range and quality of output, how it is to be produced, the volume, time, and conditions for deliveries, the level of prices, and so on. Credit is extended to farmers, as a rule, in the form of the needed means of production, with deferred payment until the harvest has been sold. Tied by such contracts, the farmer loses his independence and becomes in essence a wage worker, working on his own farm at extremely low payment for his labour.

The development of vertical integration of agriculture and industry and of the processes shaping "agrobusiness" has led to mass ruin of small and medium farms (see Section 5 in Chapter 8).

The oppression of small-scale production by monopolies is increasing. A major source of monopoly profit is now the robbing of small producers as a whole and the redistribution of the aggregate surplus value between monopoly and non-monopolised enterprises.

The Plunder of Economically Backward Countries

The plunder of economically less developed countries was a major source of monopoly profit.

Monopoly profit is extorted from economically less developed countries by means of the varied relations of monopoly domination–through intensified exploitation of the workers of these countries in the production process, through monopolisation of commodity circulation and monopoly prices, through various forms of financial monopoly; but of primary importance in the exploitation of other peoples under imperialism is the export of capital.

The biggest exporter of capital and exploiter in the contemporary capitalist world, American monopoly capital, derives enormous profits on exported capital. The debts of developing countries to imperialist powers are growing very rapidly. State and state-guaranteed debts alone rose by about 700 per cent between 1956 and 1973 and reached 80,000 million dollars.

One of the most important ways in which the monopolies obtain high profits in economically less developed countries is non-equivalent exchange. In this way, they appropriate not only the surplus labour, but also a significant part of the necessary labour of the dependent peoples. The "scissors" of monopoly prices in trade relations with them is an instrument for creaming off the value created by the workers of these countries and converting it into a permanent source of super-profit for the foreign monopolies.

The prices of the raw materials and other commodities exported from economically less developed countries are falling, while those of the industrial products they import are rising. Thus, average export prices from developing

countries fell by 13 per cent between 1950 and 1972, while the prices of their imports from developed capitalist countries rose by 7 per cent. The developing countries' losses through the deterioration of their trading position for the decade 1960-70 alone exceeded 50,000 million dollars.

The immense super-profit derived by monopoly capital from robbing dependent countries forms a significant proportion of the monopoly profit of finance capital as a whole.

Monopoly Profit Derived by Financial Methods

It is characteristic of monopoly capital that it disposes not only of the labour of others, but also of the capital of others, greatly exceeding itself. A leading role in this is played by the holding system, personal links and other means. Groups of monopolists with control over the capital of others derive enormous incomes and grab a significant proportion of their profits. The American progressive economist Victor Perlo has given data on the rate of income for capitals of different categories in the USA. Capital lent on interest brought in 2 to 3 per cent per annum, capital invested in ordinary shares yielded on average 4 to 12 per cent in the form of dividends, and the capital of financial corporations 25 to 50 per cent per annum. Thus, the monopolists, by using the system of control, become richer and appropriate the results of the functioning of other people's capital.

The financial oligarchy's control over the capital of others is also considerably expanded by pension funds. These, as a rule, are managed by the major banks. In the USA, 98.5 per cent of all the assets of pension funds are concentrated in 13 of the largest banks. And through its banks the financial oligarchy has the resources of pension funds broadly at its disposal, especially for buying stocks and shares of various corporations.

Stock-market operations play an important role in increasing the monopolists' wealth. As explained in Chapter 7, monopolies obtain enormous promoters' profit. When a joint-stock company is founded, shares are issued and distributed between founders or promoters at face value. When, however,

it becomes clear that the dividend to be paid on the shares exceeds the bank rate of interest, their stock-market price may begin to rise. By selling their shares at price much above their face value, the founders or promoters of a company can obtain profits that are sometimes far in excess of the actual capital invested.

One of the ways in which finance capital magnates increase their wealth is issue profit received on the issue of shares and bonds. The floating of an issue of securities by joint-stock companies is done mainly through investment banks or issue houses that have the necessary machinery and clientele at their disposal, which charge a percentage handling commission on the total sum of the issue of securities. In other words, the bank takes the corporation's shares and bonds at a lower rate than that at which it sells them. This commission is issue profit. The typical rate of commission on floating the shares of the largest companies in the USA is between 3 and 4 per cent, 5 to 10 per cent for medium companies with a good business reputation, and 15 to 20 per cent for a relatively risky issue.

In order to gain additional revenue through ruining the mass of small shareholders, financial magnates engage in stock-market speculation on a very broad scale. They often organise a temporary drop in the price of shares of companies that have good prospects. The mass of shareholders, overcome by panic, quickly get rid of their shares at the lowered price. The same magnates then buy them up in large quantities at a discount. There are numerous other variants of stock-market speculation: they all serve to enrich the financial magnates and ruin the ordinary shareholders.

Financial capitalists make mounting profits from operations in state loans. With the rapid growth of the state machinery and militarisation of the economy, imperialist states do not cover their expenditures solely by taxes, but also by borrowing or state loans. The main purchasers of state-loan bonds are banks, large industrial corporations, and insurance companies. Outwardly it would seem that operations in state securities would not be very profitable for banks and other monopolies, since the interest on them is lower not only than monopoly profit but also average profit. In

reality, the floating of state loans, which is usually entrusted to a consortium of big banks, brings in a commission of between 5 and 15 per cent of the total sum of the loan. Banks, insurance companies, etc., moreover, have enormous amounts of other people's money at their disposal, which they use to purchase state-loan bonds. Operations in state securities are therefore of great interest to the monopolistic bourgeoisie. Furthermore, the payment of interest on state-loan bonds in its entirety involves enormous sums. In the 1974/75 fiscal year, the total interest on the federal debt in the USA was 33,000 million dollars.

In the final analysis, the various methods of financial gain are the redistribution of the surplus and of part of the necessary product created by the workers in the sphere of material production. At the same time, these methods are connected with intensifying exploitation of the working people by monopoly capitalists.

Ensuring Monopoly Profit through the Bourgeois State

Imperialist states adopt numerous measures to ensure high monopoly profit for the financial oligarchy. The state budget has been transformed into a social mechanism for redistributing the national income in favour of the monopolies, a redistribution that takes place through state purchases, military contracts, subsidies of all kinds to the monopolies, tax concessions, subsidised rates on state transport, and so on.

Imperialist states employ a system of state purchases and the commodity stockpiling that is profitable for the monopolies, buying, at the tax-payers' expense, and at high prices, the commodities for which the monopolies have found no outlet, and in this way keep prices on the home market at a level that ensures the monopolies superprofit.

The state pays subsidies and bonuses to the monopolies and grants them tax concessions and loans, in particular those filling government orders or producing for export. Export of capital is subsidised by the state and the capital exported by private monopolies is safeguarded.

On the most favourable and subsidised terms, monopolies are given the right to use state transport, electricity, certain types of raw material produced by state enterprises, and so on. That is how the monopolies redistribute the incomes of the working people and also some of the profits of capitalist outsiders with state help to their own benefit.

Thus, the main sources of monopoly profit are: (1) the surplus value created by the labour of the wage workers exploited in the enterprises of the monopolies themselves; (2) part of the value of the labour power of wage labourers employed in all spheres of the capitalist economy; (3) the surplus and a part of the necessary labour of small commodity producers (farmers, peasants, artisans and handicraft workers) in the imperialist states; (4) a significant share of the value created by the working people of other countries, especially economically dependent ones; (5) a share of the profits of non-monopolised enterprises and sometimes a part of their capital.

As for the means and methods used by monopolies to extract high profits, they are, as already indicated, extremely diverse, and include increasingly refined ways of exploiting the working class and reducing wages below the value of labour power; increasingly extensive use of non-equivalent exchange, i.e. the fixing of high and low monopoly prices in economic relations with all other strata of the population of the capitalist world; every other possible method of enslaving, robbing, and ruining the peasants and farmers of imperialist countries and the peoples of dependent countries; establishing control over other people's capital and financial strangulation of non-monopolised capitalist enterprises; various financial operations, beginning with making promoters' profit and ending with stock-market speculation, that bring in enormous revenue to the "genii of financial intrigue"; and numerous ways of using the state to make monopoly profits.

Analysis of the methods of making monopoly profit shows that the domination of monopoly absolutely contradicts the interests of the majority of the nation. "The capitalist monopolies are the chief enemy of the working class. They are also the chief enemy of the peasants, handicraftsmen, and

other small urban proprietors, of most office workers and intellectuals, and even of a section of the middle capitalists."[1]

3. THE RATIO BETWEEN MONOPOLY AND AVERAGE PROFITS UNDER IMPERIALISM

The problem of monopoly profit raises the question of how the law of average profit works under imperialism.

The law of average profit and price of production played a tremendous role under pre-monopoly capitalism. Marx linked the modification of value categories and price formation under free competition with its operation. The mechanism by which capitalist industrial and commercial profit, loan interest, rent, and entrepreneurial revenue are formed was based on it. The law of average profit thus expressed the relationship between production and the distribution of surplus value in capitalist society.

There are different opinions in Marxist literature on the law of average profit under imperialism. Some economists consider that it still operates in its earlier form but only manifests itself over longer periods. Others suggest that the law has been modified and that two average profits have appeared, one in the monopoly sector of the economy (the higher of the two) and the other (lower) in the non-monopoly sector. A third group of economists holds the opinion that average profit is only formed in the sphere of operation of monopoly capital, while its formation has been made more difficult in that of non-monopoly capital. There are also other points of view.

In considering the formation of average and monopoly super-profit under imperialism, we must remember that the domination of monopoly capital is still based on a broad foundation of non-monopoly capitalism. Of the more than 11 million companies and individual businesses in the USA, only a few thousand (possibly even less) of the very largest corporations are monopolies. The remaining millions are non-monopolised enterprises that do not obtain monopoly

1 *The Road to Communism*, p. 483.

profit. More than a third of US industries are either quite unmonopolised or only slightly so. They include certain branches of the forestry, timber, furniture, bakery, dressmaking, leather, cheese, butter, and textile industries, and of other types of production. The branches of agriculture are also mostly unmonopolised forms of production, although they are under the yoke of industrial and commercial monopolies. Between these branches of production, there is naturally capitalist competition and a free flow of capital. "Nowhere in the world," wrote Lenin, "has monopoly existed in a whole series of branches without free competition, nor will it exist."[1]

Inter-Industry Competition and Its Influence on the Distribution of Surplus Value under Imperialism

The domination of the monopolies does not exclude inter-industry competition, though it does create new conditions for it. The facts show that, even under imperialism, there is a flow of capital from one industry to another, despite the obstacles presented by the monopolies. Monopolisation of production of the most important types of commodities and high monopoly prices on them stimulate the development of new industries producing successful substitutes for traditional materials or articles. Thus, there is competition between firms producing natural rubber and those producing synthetic rubber, between firms tanning natural leather and making artificial leather, and so on.

In general, it would be incorrect to assume that the domination of monopolies creates an absolute and insurmountable obstacle to the flow of capital between industries. No monopoly can make the industry it dominates completely impermeable to rivals so long as it ensures higher profits. For that reason, the old forms of capital flow, i.e. direct transfer from one industry to another, remain under imperialism.

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[1] V. I. Lenin, "Eighth Congress of the R.C.P.(B.)", *Collected Works*, Vol. 29, p. 168.

The increasing role of imperialist states has to be taken into account when considering the transfer of capital into various industries. The need for state intervention in the economy increases as the contradictions of social reproduction engendered by the monopolies become more acute. As a result, the tendency for private capital to flow into the most profitable industries and for old industries to decline has become more pronounced. When old industries cease to ensure high profits for the financial oligarchy, they no longer attract private monopoly capital; but they remain necessary for social reproduction, so that, in the interests of the monopolistic bourgeoisie as a whole, the state takes them over and invests state capital in them, frequently renewing their fixed capital at the tax-payers' expense, subsidising their development, encouraging concentration and centralisation of production within them and so ensuring their profitability. Imperialist states are also playing an ever increasing role in financing new sectors of production, which under present-day circumstances, require enormous capital investment.

Furthermore, undertakings in new industries do not make a profit for a certain time, and the monopolies are not interested in investing their capital in building them up in that initial period, but once production has been mastered with the help of state capital and a profit is being made, private capital flows to these industries in a broad stream.

The ever increasing proportion of fixed capital tied up in production for long periods is usually considered the main obstacle to the flow of capital. Once it is in a certain industry, it cannot be transferred to another, more profitable one; but in present-day conditions the imperialist state encourages accelerated depreciation of fixed capital, thanks to which depreciation funds are accumulated long before the fixed capital is physically worn out. This obstacle is, consequently, much weakened. The movement of capital from one industry to another, more profitable one, moreover, is greatly assisted by the enormous scale of credit.

Under imperialism, the migration of labour force from one area to another, and its flow from industry to industry, is considerably increased, which is connected both with the development of all forms of transport and with mass chronic unemployment that forces workers to be constantly

on the move in search of work. Economic crises, more frequent under imperialism, each time more forcibly impel capital to transfer from less profitable to more profitable industries.

Inter-industry competition thus takes place in the present circumstances both in the old forms and in new ones engendered by the conditions of imperialism. Monopolies, non-monopolised enterprises, and the capital of the bourgeois state are involved; and as far as imperialism does not eliminate inter-industry competition, the tendency for surplus value to find the level of average profit is therefore also maintained.

Consequently, the objective role of inter-industry competition is still today that of equating the different industry rates of profit to a single average rate of profit and of distributing the surplus value created in the society at the average rate.

The Effect of Monopoly on the Distribution of Surplus Value

The relations between capitalists in different industries are not, however, determined solely by inter-industry competition under imperialism, but also by the monopolies that dominate the economy. The question therefore arises as to the role of monopolies in inter-industry relations. Marx noted that if monopolies prevented surplus value from finding the level of average profit in various spheres of production, they would nevertheless secure an income exceeding average profit by means of monoply prices. In addition to average profit, they would also receive monopoly superprofit, the source of which would be part of the surplus value created in the unmonopolised sectors of production and also a part of the value of labour power.[1] All Marx's theses on these points are of cardinal importance in the period of imperialism and help us to understand its major problems.

In his investigation of monopolies under imperialism, Lenin wrote: "Monopoly yields *super-profits*, i.e., a surplus of profits over and above the capitalist profits that are normal

[1] See Karl Marx, *Capital*, Vol. III, pp. 756-57, 838-40.

and customary all over the world."[1] Consequently, the domination of monopolies in the economy prevents the redistribution through inter-industry competition of all the surplus value created in the society on the principle of equal profit on equal capital. By erecting barriers and obstacles (such as monopoly prices) in the path of the movement of capital between industries, the monopolies, in the final analysis, grab a share of the surplus value created in other sectors of production and prevent it from being generally distributed at the average rate on capitals of different size.

At the same time, *monopolies cannot eliminate competition between industries. Existing above and alongside it, they are not able to grab all its surplus value in the form of super-profit, but only some of it.* What happens, then, to the rest? The answer to that lies in the above quotation from Lenin. "Normal and customary" capitalist profit is the same thing as average profit. Consequently, the part of the surplus value of society remaining after the monopolies have taken their super-profit is distributed under the influence of inter-industry competition, according to the old principle of equal profit on equal capital.

The Two Forms of Profit under Imperialism and Their Interconnection

It is only possible to understand the formation of average profit under imperialism and, at the same time, the process of the rise of monopoly super-profit, if the relationship between monopoly and competition is considered. Competition objectively governs the tendency for the rate of profit in the different sectors of the capitalist economy to be equalised. Monopolies, on the contrary, by erecting barriers to competition and limiting it, secure a share of the surplus value created in the non-monopolised sphere of production and do not allow it to take part in the general process by which profits are equalised.

Consequently, *under monopoly capitalism, the surplus value*

[1] V. I. Lenin, "Imperialism and the Split in Socialism", *Collected Works*, Vol. 23, p. 114.

of society is distributed under the influence of two factors, competition and monopoly. The total mass of surplus value is distributed both according to capital (equal profit on equal capital) and according to the level of monopolisation (monopoly super-profit). *The average rate of profit* under imperialism is the ratio of the surplus value of society, minus that part of it that constitutes monopoly super-profit, to the whole capital of the society advanced. In addition to average profit on their capital, monopolies also receive monopoly super-profit.

It has already been noted above that three types of price are in operation on the market under imperialism–high monopoly, low monopoly and non-monopoly prices. One can therefore get the impression that the monopolies do not derive average profit through monopoly prices and that average profit, as such, has generally disappeared from monopolised industries and no longer has any significance in them. The components of the profits made by monopolies, although concealed in the general form of monopoly profit, are not visible on the surface. Average profit, however, is, in reality, one of its components and has not lost its significance in the monopolised sphere of the economy.

Average profit makes itself felt in various ways. If a monopoly for some reason collapses, but its former partner companies continue to function, they can count on obtaining average profit (and some, possibly, temporarily also receive normal super-profit). When a new monopoly develops from outsiders, the average profit that they received before its formation continues to serve as a reference-point for assessing the efficiency of monopolisation and as a kind of scale for comparing the amount of the super-profits of various monopolies and the lower limit of profitability for the monopolists.

The process by which average profit arises and is obtained in the non-monopolised sphere of the economy is more obvious. There, market prices for commodities fluctuate, as a rule, around the price of production. Many capitalists, not belonging to monopolies, cannot stand the competition, because of high production costs, and go bankrupt. The profits of the capitalists who can stand the competition, however, tend toward the average. In order to get a realistic idea of

the size of average profit in the economy as a whole in any particular imperialist country, the industry by industry rates of profit in the non-monopolised sector must therefore be studied over a number of years.

Under imperialism, surplus value thus takes two forms, (1) *average profit and* (2) *monopoly super-profit.* The coexistence of these two forms of surplus value is the same sort of contradictory phenomenon as the interweaving of monopoly and non-monopoly capital and of monopoly and competition under imperialism.

Chapter 17

SPECIAL FEATURES OF THE REPRODUCTION OF CAPITAL IN MODERN CONDITIONS

1. CHANGES IN THE CONDITIONS OF CAPITALIST REPRODUCTION SINCE WORLD WAR II

The reproduction of social capital acquired certain new features in the first few years after World War II, as compared with the pre-war period. The growth rates of capitalist industrial production increased. The mean annual growth rate for the 18 pre-war years in developed capitalist countries was 2.3 per cent, while for the period 1951 to 1970, it was 5.3 per cent. The process of reproduction, however, was characterised by extreme instability, and during this period, frequent declines ("recessions") in industrial production were observed.

The process of reproduction took different courses in different countries, and its unevenness became extremely pronounced. Japan, Italy and West Germany had high growth rates, while the British economy developed slowly. The capitalist world suffered three world economic crises. In the USA, Japan, West Germany, Great Britain and Italy, between 1950 and 1970, production dropped on eleven occasions compared with the previous year, and in France, nine times. There was also "asynchronisation" of the world capitalist cycle, when it stretched out over several years and the crisis did not spread to all capitalist countries simultaneously.

An absence of sudden and sharp critical falls in production has been characteristic of these post-war cycles. The capitalist economy slipped gradually into recurring economic crises. The phases of the crises, as a rule, became shorter, compared with the pre-war period, depression being less protracted and sometimes completely absent; but after the economic crisis that set in September 1969, US industry only entered the upswing phase toward the autumn of 1972.

The post-war capitalist cycles have been characterised by longer phases of recovery and boom and comparatively high economic growth rates, but they have been more frequent in the major imperialist country, the USA, than in other countries.

The structure of the capitalist economy also altered under the influence of the scientific and technical revolution, and this has its effect on increase in the proportion of industry in the gross output of developed capitalist countries from 33 per cent in 1950 to 36 per cent in 1970 and from 17 to 25 per cent in developing countries. Heavy industry has had a faster growth rate than light industry, so that the proportion of its output in total industrial production rose from 60 to 70 per cent in developed capitalist countries and from 30 to 45 per cent in developing countries.

Capitalist reproduction experienced the influence of all the contradictions engendered by the general crisis of capitalism, and the intensification of both the internal and the external contradictions affected the cycle: viz. the deepening contradiction between the social nature of production and the private capitalist form of appropriation; the developing of the scientific and technical revolution; the development of state-monopoly capitalism and sharpening of all social contradictions; the growth of the strength of the world socialist economic system and the advances of socialism in economic competition with capitalism; and, finally, the decline and fall of the imperialist colonial system.

The Effect of the World Socialist System and the Collapse of the Colonial System on Capitalist Reproduction

The formation of the world socialist system and its increasing strength and progress in economic competition with capitalism have posed the imperialists the pressing problem of maintaining the capitalist social system by every means possible.

Rates of economic growth became a problem of concern for bourgeois governments, both in the USA and in the capitalist countries of Western Europe. Making use of the

system of state-monopoly capitalism, including imperialist "integration", monopoly capital strives to stimulate the process of reproduction, whip up growth rates, and prevent capitalism from being defeated in economic competition with socialism.

Being compelled to compete economically with socialism, imperialism at the same time has not relinquished hope of an aggressive war against the socialist world, which is one of the reasons for the continuing militarisation of the capitalist economy. Militarisation of the economy, however, has a contradictory effect on the capitalist cycle. Initially, it supports the market and may even give rise to a certain short-term upswing; but it ultimately leads to a fall in the growth rates of production, to the development of inflation, to deterioration of the position of the working people, to exhaustion of the economy, and on the whole to an increase in its instability.

The collapse of the colonial system of imperialism also affected the course of the post-war economic cycle. The struggle of the former colonies and semi-colonies for economic independence and to overcome their backwardness created extra demand for machinery, equipment and other output of Department I from developed capitalist countries.

At the same time, growth of the national economy and, in particular, development of the state sector in countries taking a non-capitalist path, ensures a relative independence of economic development and a lower susceptibility to the effects of world economic crises, and exercises a certain shock-absorbing effect on the course of the capitalist cycle in developed capitalist countries.

The class struggle of the working people of bourgeois countries also has a certain influence on capitalist reproduction. The growing might of the world socialist system and the rise in the standard of living of the working people in socialist countries make the conditions easier for the struggle of the working class in capitalist countries. After World War II, the strike movement (on which there is more detail in Chapter 19) gained in strength. The struggle of the proletariat compelled the bourgeoisie in developed capitalist countries not only to raise nominal wages, but often also to increase real wages, and to spend more on worker

insurance. The rise in wages gave new life to the market and to some extent maintained purchasing power at a relatively high level, making it easier to realise the social product, and consequently had a mitigating effect on the course of economic crises of overproduction.

The Scientific and Technical Revolution and Capitalist Reproduction

The current scientific and technical revolution is having a contradictory effect on the process of reproduction of social capital and the course of the capitalist cycle. While a boon to mankind, the scientific and technical revolution, in capitalist conditions, is accompanied with serious complications in the whole social reproduction process. Reflecting progress in the development of the productive forces, on the one hand, it gives rise to rapid growth of new branches of production and so stimulates the phase of expansion. It has resulted in the production of numerous consumer durables, which has encouraged the development of industry as a whole. On the other hand, however, the rise of new industries is accompanied by a decline in a number of old ones that provided work for hundreds of thousands. Capitalism does not ensure that they are retrained and given new jobs. So-called depressed areas develop, areas of the textile, coal-mining and other industries. The people of these areas lose their jobs and fall into extreme poverty, deprived of the possibility of finding the means of subsistence. As automation develops, thousands of workers lose their jobs without hope of finding new ones, and so-called technological unemployment develops.

All this limits the purchasing power of the working masses, makes the conditions for realisation of output worse and, ultimately, causes the preconditions for deep economic crises of overproduction to mature.

The renewal of fixed capital, as we know, is the material basis of the capitalist cycle. The scientific and technical revolution has a complex effect on this, increasing the need for new plant and equipment, and consequently, by increasing the demand for the elements of fixed capital, stimulates

growth of the production of means of production. It leads to accelerated obsolescence of machinery and equipment by speeding up the rate of depreciation, which also acts as a stimulus to production. The intervals between crises are becoming shorter. At the same time, capital-to-man ratio is also increasing; in the twenty years between 1948 and 1968, for example, it increased by 59 per cent in the USA, which indicates a rise in the technical, and therefore also in the organic, composition of capital. A relative decrease in the share of variable capital is accompanied with an increase in the industrial reserve army, which holds back growth of the home market and, consequently, also makes it increasingly difficult to dispose of the growing volume of output.

Competition between capitalists prompts them to introduce new technology before the old equipment is fully depreciated. Immense reserves of unused productive capacity are accumulating. In 1975, more than a quarter of the equipment in Common Market countries was idle, and in the USA 35 per cent. An "over-accumulation" of fixed capital takes place, which is manifested in an economically unjustified rise in expenditure on fixed capital per unit of output, which weakens the stimulus to expand fixed capital and has a negative effect on the growth rates of capital investment. As a result, outlay on the renewal and extension of productive capital falls. Orders for the products of Department I shrink, above all for means of production to produce means of production, and that retards the rates of industrial expansion and leads to long periods of stagnation in capital construction. All these complex and contradictory phenomena reveal the limited possibilities of contemporary capitalist production relations for utilisation of the achievements of the scientific and technical revolution.

State-Monopoly Capitalism and Capitalist Reproduction

In bourgeois economic literature the thesis is stoutly defended that, as state intervention in the economy and the use of computers to calculate the market situation and to program production increase, capitalism will be able finally

to put an end to economic crises of overproduction. The development of state-monopoly capitalism leads, in the opinion of bourgeois economists, to the transformation of capitalism into planned and regulated production. Theories are gaining currency that, in contemporary conditions, the trend toward planning is getting the upper hand over that toward anarchy.

The concentration and centralisation of capital undoubtedly reflect an increase in the social nature of production. A small number of very large corporations produce by far the largest part of the output of any particular industry. By making wide use of computers, monopolies are able to keep account of production and somehow or other to establish the required balance between the different links of the huge industrial, trade and financial complex controlled by a given financial group. They can even anticipate a drop in demand and forestall such a massive overproduction of consumer goods as took place during, for example, the 1929-33 crisis. In this sense, Lenin's idea that the domination of monopolies undermines commodity production and spontaneous operation of the law of value is justified. The fact that a certain number of major monopolies work on Treasury orders, for a guaranteed state market, also helps to a certain extent to reduce the scale of overproduction of commodities.

Improved planning and organisation of production within a single firm, or even within a financial group, does not, however, and cannot, eliminate the anarchy of social production as a whole. Fierce competition remains within monopolies, between monopolies within the same industry, and between monopolies in allied industries. In every imperialist country there are, moreover, numerous non-monopolised large, average and small businesses that still produce a significant proportion of output. Production in this sector is not under direct control and regulation, and indirect regulation does not achieve the desired effect. Finally, fierce competition remains on foreign markets and no trade or economic agreements can eliminate it.

Thus, while capitalist production relations still exist, competition and anarchy of capitalist production as a whole will remain.

At the same time, it would be a mistake to deny that the increasing intervention of the bourgeois state in the capitalist reproduction process has a certain effect. After World War II, the governments in a number of countries began to take anti-crisis measures of every kind on a fairly wide scale, utilising the tax system, state capital investment and programming of the economy. During periods of expansion, they resorted to so-called market damping, i.e. artificial restriction of excessive growth of production, while during crises, on the contrary, the market was "hotted up". Monopoly capital uses the state budget to stimulate production during crises and to soften their consequences for the big monopolies; and the measures taken by the bourgeois state have a certain effect on the course of the capitalist cycle. They cannot themselves, however, eliminate the cyclical nature of capitalist reproduction. Only the course of the cycle is altered. State-monopoly capitalism does not remove the contradictions inherent in capitalist reproduction, but simply drives them below the surface. Engels's comment in *Capital* that "every factor, which works against a repetition of the old crises, carries within itself the germ of a far more powerful future crisis"[1] is justified. In the final analysis, it leads to the crisis not immediately and completely fulfilling its role as a stimulus to renewal of fixed capital and enforced establishment of the necessary balance between the branches of social production. The crisis may be brought to a temporary halt, but it will break out later with new force. This was the course of the crises, for example, in the USA in 1957 and 1961, 1967 and 1969, and in West Germany in 1967 and 1972.

When spontaneous operation of the mechanism of capitalist reproduction is upset by state-monopoly intervention, this leads to the development of signs of stagnation within industries and even whole regions suffering from long-term crises. The instability of the capitalist economy as a whole becomes more pronounced.

"...State-monopoly regulation, exercised in forms and on a scale which meet the interests of monopoly capital and

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[1] Karl Marx, *Capital*, Vol. III, p. 489.

are aimed at preserving its rule, is unable to control the spontaneous forces of the capitalist market," the 1969 International Meeting of Communist and Workers' Parties stated. "Practically no capitalist state has been able to avoid considerable cyclical fluctuations and slumps in its economy; in some countries, periods of rapid industrial growth alternate with periods in which there is a slowdown and often a drop in production."[1]

Certain Features of Reproduction in West Germany and Japan

One of the distinctive features of capitalist reproduction since the war has been the quite high growth rate of industrial production in the second half of the 1950s and beginning of the 1960s in countries like West Germany and Japan. The ideologists of the monopolistic bourgeoisie indulged in wishful thinking concerning the exceptional character of capitalism in these countries, underlying which was an alleged "transformation" of capitalism and the overcoming of all its contradictions. In reality, the high growth rates of industrial production in those countries were the result of the operation of several temporary factors.

During the Second World War, their economies suffered considerable losses. The necessity of rehabilitating them gave rise to extensive building of industrial enterprises and housing and then of enterprises producing consumer goods. The fact that rehabilitation of their economies coincided with the beginning of the scientific and technical revolution resulted in additional demand for new types of equipment. At the same time, the rebuilding of industry on the basis of the most up-to-date technology made it possible to cut production costs and ensured that their output would be very competitive on foreign markets, which in turn provided an additional stimulus to growth of production.

Before the war, proportion of German exports going to those European countries where people's democratic governments

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[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 19.

were subsequently formed amounted to 60 per cent; and the countries in Asia which subsequently became socialist took half of Japan's exports. Being deprived of old sources of raw materials and markets, West Germany and Japan were compelled to reorientate themselves toward new markets; they began to master new sources of raw materials and to push ahead with the development of artificial substitutes, which necessitated the setting up of new branches of production with a new product-mix for export, thus facilitating a rise in the growth rate of industry.

The fact that military expenditures in the Federal Republic of Germany and Japan were relatively low immediately after the war was also of immense significance. It has been estimated that, because of this factor alone, Japan had at least a 2 per cent annual growth rate in industry.

The war had led to a sharp intensification of the already cruel exploitation of the working class by capital in West Germany and Japan. The rate of surplus value fluctuated between 350 and 400 per cent. The wages of Japanese workers were, and still are, only 25 to 33 per cent of those of corresponding American workers. The West German monopolies have made enormous super-profits from the exploitation of foreign workers. This also raised the competitiveness of West German and Japanese commodities on world markets and ensured a high rate of accumulation.

State-monopoly capitalist measures played no small role in West Germany's and Japan's achievement of high economic growth rates. They were faced with the choice of either becoming independent states in the system of imperialism or of becoming third-class countries, dependent on other imperialist powers. The state-monopoly capitalist measures taken decided things in favour of the monopolies.

American credits were a further important factor in the restoration of these countries' economies and the development of their military potential. The stimulating effect of these factors, however, was exhausted by the mid-1970s. In 1974-75, West Germany and Japan were hit by the next economic crisis to the same degree as the other developed capitalist countries.

2. A BRIEF SURVEY OF THE POST-WAR CAPITALIST CYCLE

In the period of the general crisis of capitalism the capitalist economy is distinguished by extreme instability, which is seen above all in the special character the capitalist cycle has acquired in this period of the general crisis, particularly in present-day conditions. It is also manifested in frequent disturbances of the functioning of the financial and credit system and of money circulation, in increasing unevenness in the development both of individual branches of the economy within each imperialist country and of individual countries within the world capitalist economic system.

The specific features of the cyclical development of capitalism since the war are a clear sign of the instability of the capitalist economy.

The 1948-1949 Economic Crisis

The capitalist cycle that began with the world economic crisis in 1937 was interrupted by the Second World War, which was a tremendous cataclysm for the whole capitalist system. Victors and vanquished alike proved to be seriously weakened. Only US monopoly capital profited from it. The total volume of US industrial production rose by 170 per cent between 1938 and 1943, and in industries directly connected with arms production, output rose by 400 to 900 per cent. As a consequence of reconversion, however, i.e. of the transition of the economy onto peaceful lines, US industrial production dropped 32 per cent below its 1943 level in 1946. In 1946-47, there was a certain recovery, mainly as a result of growth of the home market due to deferred demand and the beginning of the rehabilitation of the West European economies that had suffered during the war. In spite of that, however, an economic crisis developed in the USA in 1948. In 1949, industrial production fell by 10 per cent compared with the end of 1948, and the number of unemployed reached 3,700,000.

It is characteristic that the 1948 crisis set in before US

industry regained its record 1943 level. This crisis mainly hit the US economy, and developed later in Western Europe, in 1952-53. This staggering of crises over time between different countries or, in other words, the asynchronisation of the world capitalist cycle, was mainly a result of World War II having had different effects on the economies of capitalist countries and having disrupted the international economic links that had taken shape before the war.

The 1948-49 crisis set in motion the first post-war economic cycle which lasted until the end of 1958. While the previous cycle had been seriously distorted by the war, the new, first post-war one occurred in a period of relatively peaceful development of the capitalist economy, of the establishment of the world socialist system and break-up of the imperialist colonial system, growth of state-monopoly capitalism, and militarisation of the economies of imperialist countries, all of which had their effect on its course.

The US Government introduced measures that had a certain effect in weakening this crisis, including enormous state purchases and the financing of exports through the Marshall Plan.

The upswing that began at the end of 1949 in the United States proved short-lived because it had an insecure military basis, the US war in Korea. In the middle of 1953, an intermediate economic crisis developed in the USA, production falling by 6 per cent over the year. The upswing that began in 1954 involved all capitalist countries and lasted until 1957. During these years, the capitalist world's industrial production rose by 18 per cent, a rise that was not solely the result of extensive replacement of fixed capital but was also connected with the fact that the economies of West European countries had been finally restored, which presented additional demand.

The World Economic Crisis of 1957-1958

In 1957, a world economic crisis that affected the American economy most set in. The mean monthly index of US industrial output fell by 14 per cent, the fall being particularly steep in industries producing means of production

and consumer durables. The annual volume of exports fell by 16 per cent. The average monthly number of unemployed in the USA in 1958 was 4.7 million, or 6.8 per cent of the labour force. There was a considerable drop in the standard of living of the working people.

At the same time, there was a drop in production in Canada, Great Britain, Belgium, the Netherlands, Sweden, Norway and Finland. The growth rates of production slowed down in France and West Germany. Growth of production came to a halt in Japan and India. In spite of the high level of business in a number of countries, industrial production in the capitalist world as a whole fell by 5 per cent in the second quarter of 1958 compared with the second quarter of 1957.

The recovery that began at the end of 1958 was short-lived. From the autumn of 1960, signs of a new wave of crisis swept the USA. The phase of cyclic upswing, which began at the end of 1962, lasted (in the USA and most countries of the capitalist world) until the end of 1966. It was based on extensive renewal of fixed capital, coinciding with intensive development of the scientific and technical revolution, which was one of the main reasons for the high rates of economic growth.

The World Economic Crisis of 1969-1971

In 1967, the first signs were observed of a new world economic crisis that later involved most capitalist countries. In the USA, there was a significant decline in the economy, and industrial production increased that year by only 1 per cent. The decline was particularly steep in Department I industries, above all in iron and steel, metal processing, transport engineering, and the production of building materials. Plant was being used at well below capacity and there was a cut-back in capital investment. Monopoly capital tried, by means of a series of measures of a state-monopoly type, to circumvent the crisis. The most important of these measures was escalation of the war in Vietnam, which was accompanied with military orders worth thousands of millions; that did not, however, stave off the cri-

sis, but simply made it develop more slowly and more deeply.

In 1969, the crisis struck with full force. Between July 1969 and November 1970, industrial output in the USA fell by 7.5 per cent, and the production of consumer durables and sales of industrial equipment by 14 per cent. Most machine-tool firms were working at 37 to 40 per cent of capacity during this period. Production of motorcars fell by 20.4 per cent. The crisis also affected the arms industry, in particular production in the aerospace industry fell by 20 per cent. A powerful wave of bankruptcies, mergers and takeovers swept the country.

The share of wholly unemployed was 6.2 per cent of the employed population in December 1970, according to the official statistics, including around 10 per cent of production workers, about 5 per cent of office workers, 4 per cent of those in trade and commerce, and nearly 3 per cent of the professionally qualified. About a fifth of the potential work force suffered temporary lay-offs, lost overtime, or suffered compulsory cuts in the working week.

In trying to lay the burden of the crisis on the workers, the monopolies screwed up prices for consumer goods and the state forced inflation.

We must take a special look at the cyclical development of the West German economy. After a long restoration process and quite a high growth rate of industry, an economic crisis set in at the end of 1966 and the volume of industrial production fell by 2.4 per cent over 15 months. A particularly big drop was observed in the building industry (10 to 15 per cent) and in the iron and steel industry with 40 per cent of the blast furnaces and 46 per cent of the open hearth furnaces shut down. In February 1967, there were officially nearly 700,000 unemployed, not counting the 300,000 foreign workers. There were another 300,000 unemployed, moreover, not counted in the official statistics (older workers who ceased looking for work and were struck off the registers, and so on).

The economic crisis not only hit the West German economy very hard, but also had a tremendous political and psychological effect. The myth that the West German eco-

nomy was somehow exclusive, supposedly overcoming the cyclic nature of development, was shattered.

The world economic crisis of 1969-71 hit other capitalist countries, too (Italy, Canada, Sweden, Finland and Austria), though not simultaneously. In several countries there was either stagnation or a slowing of growth rates. The economic situation in developing countries, particularly of Africa and Latin America, took a sharp turn for the worse.

For the entire capitalist world, the rate of industrial growth fell from 8 per cent in 1969 to 2 per cent in 1971, and was at its lowest since the 1958 crisis. The monetary and balance of payments crisis of the capitalist system continued to worsen.

Special Features of the Economic Crisis of the Mid-1970s

In 1971-72, there was a protracted depression in the USA, followed by a revival and then by an upswing. Most capitalist countries entered the boom at the same time, but this phase did not last long. From the end of 1973, the economy of the capitalist world began to suffer serious difficulties, and in 1974 all developed capitalist countries entered the phase of a new economic crisis. A thorough analysis of this crisis was made at the 25th Congress of the CPSU. As L. I. Brezhnev remarked, "the present crisis is unusual".[1] It was unusual in the following details.

The current crisis, which began on the basis of a further deepening of the general crisis of capitalism, reached a depth and severity unusual for the post-war period. Even bourgeois spokesmen admit that it can only be compared with the crisis of the 1930s.

For the first time since the war the development of the crisis was synchronous in the main capitalist countries. Its synchronous character was due to a certain levelling up of the technical and economic development of the imperialist

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 34.

countries and blocs, and to a consolidation of reciprocal ties between the separate national imperialisms as a result of further internationalisation of economic affairs. The levelling up predetermined a synchronising of the phases of the cycle in the major capitalist countries, which ruled out any possibility of the crisis phenomena being mitigated in some of them through favourable market condition in others.

This crisis, as was noted at the 25th Congress of the CPSU, hit "the highly developed state-monopoly economy which emerged in the postwar period" with unusual severity, and was meshed in "with such serious convulsions of the capitalist world economy as the monetary, energy and raw materials crises. Inflation has made the crisis processes especially acute."[1] All these crises, being manifestations of further deepening of the general crisis of capitalism, in turn intensified the crisis of overproduction and made it more difficult to come out of it.

The current crisis sharpened all the social contradictions of capitalist society to the extreme, and laid a heavy burden on the workers. It also aggravated economic and political relations between both the imperialist states themselves and the industrially developed and developing countries.

"All this proves," as was stated by the Conference of the Communist and Workers' Parties of Europe, "that the economic and social structure of capitalist society is becoming more and more inconsistent with the needs of the working and popular masses and with the requirements of social progress and of the democratic and political development."

The depth and severity of the crisis of the mid-1970s can be judged from the following. Total industrial production in the capitalist world fell by 8.1 per cent from the level reached before the crisis (11.6 per cent in the developed countries). The fall was particularly steep in Japan (22.8 per cent), Italy (19.3 per cent), France (16.3 per cent), the USA (13.8 per cent), West Germany (12.3 per cent), and Great Britain (11.2 per cent). The crisis affected all branches of industry except coal mining and the generation of

[1] Ibid., p. 33.

electricity, in which there was a slight growth because of the rise in oil prices and the energy crisis. There was a 26.8 per cent decline in steel production in the developed capitalist countries, a 17.7 per cent decline in output of textiles, clothing, and footwear, and falls of 15.2 per cent in transport engineering, 13.8 per cent in the chemical industry, more than 20 per cent in output of electronic and radio equipment, and about 25 per cent in production of plastics.

Bankruptcies of industrial and commercial firms and banks took on a mass character.

The drop in production and underworking of production capacity gave rise to a catastrophic growth of unemployment. By the middle of 1975, more than 15 million workers were fully unemployed in the developed capitalist countries, according to official statistics (which did not take into account unemployed persons who had given up hope of finding work and were not on the records. They also left out of account those who were working less than a full day or week). According to the International Labour Organisation, there are between 18.5 and 20 million unemployed in the developed capitalist countries at the time of writing. Foreign workers, national minorities, old people, and the youth were hit particularly hard. In the USA, for example, unemployment among Black youths is as high as 40 per cent.

Galloping inflation, proceeding at an unprecedented rate, has brought about a steep rise in the cost of living. In 1974-75 alone, food prices rose by 45 per cent in Great Britain, 48 per cent in Italy and Japan, and 24 per cent in the USA.

The development of this crisis is yet more convincing evidence that bourgeois apologist theories of the possibility of eliminating crises from capitalism have no validity.

Other Signs of the Instability of the Capitalist Economy

One of the signs of the instability of the capitalist economy is agricultural crises. The reasons for them and for industrial crises were explained in Chapter 9.

The post-war agricultural crisis that began in 1948, initially in the USA, Canada, the Argentina and Australia,

spread by the mid-1950s to the agriculture of Western Europe.

A number of factors contributed to its emergence. During World War II, farm production in the USA, Canada, the Argentina and Australia had risen considerably as a result of the large demand for foodstuffs from the countries involved in the war. The US share of world wheat exports increased from 10 or 15 per cent to 40 or 50 per cent, and it supplied 75 per cent of the grain imports of West European countries. After the war, however, these countries not only revived their own agricultures but greatly expanded them, which led to accumulation of unsold farm produce in the main exporting countries.

The agricultural crisis expressed itself primarily in relative overproduction of agricultural produce, a fall in prices, a rise in the indebtedness of farm and peasant households, and numerous bankruptcies among small and medium commodity producers. In spite of the measures taken by the bourgeois governments to cut back production, the four main exporting countries alone (the USA, Canada, Australia and France) had unsold stocks of wheat and flour by the middle of 1969, totalling 55.6 million tons. Stocks of unsold cotton in the capitalist world reached 4,400,000 tons, of butter 680,000 tons, of sugar more than a million tons, and so on. These surpluses, however, were relative rather than absolute. While a mass of produce could not find a market, millions of people in the capitalist world were undernourished and even dying of hunger. According to the UN Food and Agricultural Organisation, up to a third of the world's population is undernourished.

The increase in unsold stocks in the USA and other countries exporting farm products led to a reduction of the crop area.

The agricultural crisis and the whole system of state-monopoly measures greatly speeded up the ruin of small commodity producers, furthered the concentration of agricultural production, consolidated the position of large-scale capital, and intensified the financial capital's oppression in agriculture.

The big capitalist undertakings, enjoying state credit and a system of support prices, sought to find a way out by

cutting production costs on the basis of the advances of the agricultural sciences and by introducing a connected series of farm machinery. The specialisation of farms was accelerated. Stock farms were converted into mechanised industrial factories. The merger of agriculture with the processing industry, in the form of vertical integration, as it is called, became common. Monopolies began to buy up farmers' land to build agro-industrial complexes. Monopoly capital is trying to get rid of the small peasant farm. The ruin and impoverishment of small producers in agriculture worsens conditions for the reproduction of social capital as a whole and intensifies the social contradictions of capitalism.

We thus see that certain new features have emerged in the reproduction of social capital in the present stage, but these have not eliminated the fundamental contradictions of capitalist reproduction or of its cyclic nature.

The general instability of the whole capitalist system is growing.

Evidence of this today is above all the immense scale of inflation, which has got completely out of control and become international. Whereas inflation used to develop mainly during wars and post-war dislocations, it is now taking place during all phases of the capitalist cycle, even the crisis phase. The following figures indicate its scale. While the total gross product of developed capitalist countries increased on average by 4.8 per cent per annum between 1965 and 1970 and the mass of circulating assets by 9.6 per cent, the social product grew by 5.2 per cent a year between 1971 and 1973, and the mass of circulating assets by 13.7 per cent. As a consequence, and also as a result of prices being inflated by monopolies, the cost of living in developed capitalist countries rose on average by 45.4 per cent in 1974-75 alone.

A clear manifestation of the instability of the capitalist economy is the energy crisis that has developed in recent years. Bourgeois ideologists claim that the cause of this crisis lies either in natural phenomena or in politics. In fact, its cause is the basic contradiction of the capitalist mode of production, i.e. the contradiction between the social character of production and the private form of appropriation,

and the consequent impossibility under capitalism of developing all branches of the economy (including such a major branch as the power industry) in a planned way and in the national interest. The monopolies that control the oil industry artificially hold back exploitation of power sources in their own countries for their own selfish ends, preferring to plunder the natural resources of developing countries. They create an artificial shortage of oil products, inflate their prices, enriching themselves fabulously in the process. This tactic is not a new one in the history of capitalism. Lenin wrote about it in an article "The 'Oil Hunger' ", that the crux of the oil question was above all "the shameless inflation of oil prices by the oil kings accompanied by the artificial *curtailment* of oil-well and refinery productivity by these 'knights' of capitalist profit". The oil question, he said, was a question of "criminal conspiracy of the oil magnates for the purpose of fleecing the consumer".[1] Lenin's explanation, written at the beginning of the century, also convincingly reveals the reasons for the current energy crisis.

Capitalism's rapacious exploitation of the land and of its riches and other natural resources, and pollution of the environment, above all of water and air, endanger the possibility of restoring these natural factors of economic development. Before mankind has arisen the problem of an ecological crisis. Monopoly capital strives to resolve this problem by the methods inherent in capitalism, and attempts to transfer the most harmful enterprises to developing countries, while making measures to protect the environment another source of gain.

An obvious sign of the internal instability of the capitalist system as a whole is the crisis of the monetary system of the capitalist world, the development of which is leading to a deepening of the internal contradictions of capitalism. This question will be considered in more detail in the next chapter.

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[1] V. I. Lenin, *Collected Works*, Vol. 19, pp. 34, 33.

Chapter 18

THE CRISIS OF WORLD CAPITALISM. INCREASING UNEVENNESS OF DEVELOPMENT. SHARPENING OF INTER-IMPERIALIST CONTRADICTIONS

1. THE EMERGENCE AND DEVELOPMENT OF THE CRISIS OF THE WORLD CAPITALIST ECONOMY

The Essence of the Crisis of the World Capitalist Economy

The world capitalist economy, as a system in which the developed capitalist countries oppress economically weak, is ruled by anarchy of production and by competition in the relations between private owners and is constantly torn by the sharpest antagonistic contradictions. The development of these contradictions led to emergence of the crisis of the world capitalist economy. This development was first noted by Lenin in a letter to the Executive Committee of the Comintern in 1920. In characterising capitalism, he mentioned the "'dislocation', *break-up* of the whole system of world economy".[1] The crisis of the world capitalist economy is not a temporary phenomenon, but a chronic and irreversible disturbance, a disorder of capitalist world economic relations.

The crisis of the world capitalist economy is manifested in

1) its shrinking in consequence of more and more countries having deserted capitalism and joined forces with socialism;

2) weakening of world imperialism's opportunities for exploiting economically less developed countries and the breaking of the imperialist colonial structure in the latter's economies, as a result of the break-up of the colonial system and the development of economic links between developing countries and the world socialist economic system;

3) intensification, brought about by the unevenness of their economic development, of the contradictions between

[1] V. I. Lenin, *Collected Works*, Vol. 35, p. 451.

imperialist countries in their struggle for economic and territorial redivision of the world.

The crisis of the world capitalist economy is a sign of its inherent contradiction between the drive to internationalise the economy, on the one hand, engendered by development of the social character of production, and the drive for national isolation, on the other hand, resulting from the production relations that predominate in the world capitalist system.

The crisis of the world capitalist economy, like the development of capitalism itself, follows an uneven course.

After World War I, by the mid-20s, there was a certain stabilisation of the world capitalist economy. The destruction of the war was restored, money circulation had been normalised and foreign trade and other contacts had been revived and extended. Bourgeois businessmen, economists and politicians announced in unison that capitalism had already overcome all its contradictions and that, in future, it would flourish continuously without crisis; but it did not flourish for long and the stabilisation, as predicted by Marxists, proved both partial and temporary. In the 1930s, inter-imperialist contradictions once more became acute and led to the Second World War.

Intensification of the World Capitalist Crisis after World War II

After the Second World War, the crisis of the world capitalist economy deepened not only because of growth of its internal contradictions, but also through the change in the international situation, in which it was developing.

The most important factors deepening the crisis were the growing strength of the world socialist system and the collapse of the imperialist colonial system. As the Programme of the CPSU says: "Abolition of the capitalist system in a large group of countries, the developing and strengthening of the world socialist system, the disintegration of the colonial system and the collapse of the old empires, the commencing reorganisation of the colonial economic structure in the newly-free countries and the expanding economic con-

nections between the latter and the socialist world—all these factors intensify *the crisis of the world capitalist economy.*"[1]

The falling away from the capitalist system first of tsarist Russia, and then of a big group of countries in Eastern Europe, a number of Asian countries, and then of Cuba, inflicted irretrievable losses on the world capitalist economy. The sphere of imperialist exploitation shrank significantly. For example, more than 20 per cent of all foreign capital investments in Europe had been concentrated in the European countries that broke away from capitalism after World War II, and 16.3 per cent of all foreign capital in Asia and Oceania was invested in China. The disturbance of economic connections previously existing was increased by the reckless attempt of the imperialist states to organise an economic blockade of the countries of the socialist world.

The rise of the socialist economic system alongside the capitalist brought with it new, socialist international economic relations, based on mutual benefit and the equality of all peoples, and excluding discrimination of any kind, relations that are the exact opposite of the domination and subjugation in the world capitalist economy.

As a result of the formation of new sovereign states that had cast off colonial dominion, the imperialists' opportunities of exploiting economically less developed countries were much restricted, as most of these countries are no longer the reserve of imperialism, but are fighting to eliminate monopoly domination, to abolish foreign plantations and estates, to change their one-crop orientation and to gain economic independence. Several of these countries have taken a non-capitalist path of development.

2. THE INCREASING UNEVENNESS OF CAPITALIST ECONOMIC DEVELOPMENT

Another cause deepening the crisis of the world capitalist economy is the increasing unevenness of the development of capitalist countries which is proving the basis for sharpening inter-imperialist contradictions and the struggle for economic redivision of the world.

[1] *The Road to Communism*, pp. 473-74.

World War II radically altered the balance of forces among the imperialist powers. The countries of the Hitler coalition, in particular Germany and Japan, were defeated and pushed out of the positions they occupied before the war. At the same time, US imperialism (a country that did not experience war on its own territory) took over not just a dominant, but an absolutely predominant position in the world capitalist economy. Soon after the end of the war, however, the defeated imperialist countries rehabilitated their economies and once more entered the fight for world domination.

At present, the unevenness of economic development of the different imperialist powers has increased significantly. Thus, industrial production increased over the 25 years from 1950 to 1975 by 79 per cent in Great Britain, 150 per cent in the USA, 230 per cent in France, 340 per cent in West Germany, 400 per cent in Italy, and 1,600 per cent in Japan. These uneven growth rates led to a change in the balance of power among individual countries and imperialist groupings. The table below presents data on these changes compared with pre-war data. It shows that whereas after World War II the USA had absolute superiority in capitalist industrial production, its share had dropped in 1974 to 39.2 per cent. Great Britain's share fell continuously and was less than 40 per cent of its 1938 level in 1974, Britain dropping from second to fourth position in world capitalist ranking. As for France and Italy, their position remained much the same as before the war.

The Share of the Main Capitalist Countries in Capitalist World Industrial Output
(in percentages)

Year	USA	Britain	France	FRG	Italy	Japan	Common Market (the Nine)
1938	36.0	12.5	6.7	10.5	2.9	4.6	37.4
1948	54.6	10.2	4.5	3.6	2.0	1.2	28.3
1960	45.7	8.3	5.1	8.8	3.2	4.4	28.1
1974	39.2	5.2	5.2	8.0	3.4	9.2	24.8

By 1960, West Germany's share had increased by 150 per cent on 1948 and it moved up into second place in the capitalist world; but by the beginning of the 1970s, it was reduced to third place by rapidly developing Japan, which came up from sixth position to second among the six biggest capitalist countries.

The share of the Common Market countries, the Nine, stands at approximately one-quarter.

In recent years there has been a certain levelling out of the economic development of leading imperialist countries. That does not, however, signify the disappearance of the uneven development but, on the contrary, serves as the basis for a fierce struggle for a new redivision of the world between capitalist predators of equal strength.

As for the developing countries, their share in the industrial production of the capitalist world has increased only very slightly and in 1974 was only 15.6 per cent, although around 70 per cent of the capitalist world's population lives in them.

The change in the position of the imperialist powers in world capitalist exports (see the table below) to some extent indicate fundamental changes in the balance of power among them.

By the end of World War II, a third of all capitalist exports were from the USA; in 1974, its share was only 12.7 per cent. Great Britain too has gradually lost its position on the world market; whereas it was in second place up to World War II, it has now yielded this position to West

The Share of the Main Capitalist Countries in World Capitalist Exports
(in percentages)

Year	USA	Britain	France	FRG	Italy	Japan	Common Market (the Nine)
1938	15.0	11.8	4.3	—	2.7	5.4	—
1947	33.0	10.0	4.1	0.5	1.4	0.4	—
1957	20.8	9.3	5.4	9.1	2.6	2.9	—
1974	12.7	5.7	6.0	11.5	3.9	7.1	35.6

Germany and has been relegated to fifth place. Third position has been taken by Japan, whose exports were 7.1 per cent of the capitalist total in 1974.

The share of the Common Market countries has been steadily rising. In 1957, it already exceeded that of the USA; in 1972, EEC exports were 150 per cent greater than American ones. By 1974, the share of the Common Market (the Nine) in world capitalist exports was 35.6 per cent, several times that of the USA.

The Common Market countries have expanded their exports much more rapidly than their weight in world industrial production, which indicates rapid growth of their competitiveness on the world market. Rising exports of manufactures are an important index of competitiveness. In these terms in 1970 West Germany led the capitalist world, exporting 33,800 million dollars' worth of finished goods in 1971, against the USA's 31,400 million dollars. Japanese exports of finished goods increased more than 500 per cent in the 1960s and reached 22,700 million dollars in 1971.

The movement of the gold reserves of the central banks and governments of a number of bourgeois states provides a clear illustration of the operation of the law of uneven development since the war.

After World War II, the USA held about three-quarters of the centralised gold reserves of the capitalist world. By 1972, its gold reserves had dropped to less than 50 per cent of the former level and constituted only 27 per cent of world reserves. At the same time, the gold reserves of the Common Market countries increased almost tenfold over the same period to 41 per cent of the capitalist world total, those of West German monopoly capital rising particularly rapidly. The monetary crisis that commenced at the end of 1967 did much to bring about this redistribution of gold reserves

At the beginning of 1975, more than 91 per cent of the total gold reserves of more than 43,700 million dollars belonged to the developed capitalist states, while the developing countries held less than 9 per cent. This distribution was one of the conditions for the subordination and exploitation of the peoples of developing countries by imperialist

monopolies as the former suffered a constant shortage of gold and foreign currency for external payments.

What was the reason for the change in the balance of economic power between individual imperialist countries and between the major centres of monopoly capital?

3. CHANGES IN ECONOMIC STRUCTURE, THE OBJECTIVE BASIS INCREASING UNEVEN DEVELOPMENT

Reasons for the Structural Changes in Imperialist Economies

Since World War II, there have been considerable structural shifts in the economies of the imperialist countries.

The pursuit of high monopoly profits intensified competition, both within individual imperialist countries and between them, and this took place just as the scientific and technical revolution was developing in all countries. In order to survive, it became essential to apply its achievements. In addition these made it possible both for individual enterprises and industries and for countries to forge rapidly ahead.

The time needed to level up the various imperialist powers' economic potentials was shortened still more and was the objective basis for the spasmodic development of the individual links in the imperialist economic system and sharpening of the contradictions between them.

The shrinking of the sphere of capitalist exploitation as a result of formation of the world socialist system, and its further contraction through development of the revolutionary process and, at the same time, the strengthening of the position of socialism and the other progressive forces fighting for peace, all made it more difficult to seek redivision of the world through imperialist war. These circumstances forced the monopolists to seek way out by increasing the competitiveness of their economies, to which end they adopted state-monopoly measures to improve the structure of the economy, to force the development of the most advanced industries, to improve the fuel and power balance, and so on.

The collapse of imperialism's colonial system had a very

strong effect on alteration of economic structure forcing the British monopolies, for example, to set up new raw material industries in the country, in order to make themselves independent of the former colonies in this respect. Former colonial powers, like Japan, were compelled to change the raw material base of the industry and to reorientate themselves toward new markets and create a new product-mix for export. The situation that was taking shape also called for changes in the structure of industrial production.

The Effect of Structural Changes on Unevenness of Development

All the internal and external factors enumerated above contributed towards the appearance of certain structural changes in the economics of imperialist countries.

Whereas, at the beginning of imperialist development, the main index of the development of the productive forces was the expansion of railways, at present it is the generation of electricity and the development of automation, the chemical and electronics industries and the use of nuclear power. The uneven development of these industries in the economies of the various imperialist countries ultimately gave rise to a change in the balance of power between them. The main factor in the advance of Japan and West Germany, for example, to second and third place as regards industrial production, and of Great Britain's relegation to fourth place in the capitalist world, was the significant increase in the weight of sophisticated industries in the economies of the first two. The metal-processing industry expanded more than 58 times in Japan between 1938 and 1970 and the chemical industry 17 times; in West Germany, the figures were 6 and 8 times respectively for the same period, while metal-processing only doubled in size in Great Britain and the chemical industry tripled. The power industry grew very fast in both Japan and West Germany, the mean annual increase for 1951-70 being 11.3 per cent in Japan, 8.6 per cent in West Germany and 5.2 per cent in Great Britain.

In the leading capitalist countries, the weight of the mining industry has diminished and that of manufacturing industry risen. In Japan, the share of manufacturing industry increased

from 77.3 to 93.3 per cent over the twenty years, 1950-70, while that of mining fell from 11.9 to 1.2 per cent. Japan's share of total manufacturing industry output in the capitalist world rose from 1.6 per cent in 1950 to 10.9 per cent in 1970, while Great Britain's share fell from 9.7 to 6.2 per cent. As a result, the balance of power between individual imperialist countries altered and so did their competitiveness of foreign markets.

The increasing levelling up of the techno-economic indices of the main imperialist countries has been the basis for the sharpening of the inter-imperialist struggle.

4. IMPERIALIST INTEGRATION

The change in the balance of forces between the imperialist powers has aggravated inter-imperialist contradictions and led in the third stage of the general crisis of capitalism to the development of international state-monopoly associations like the European Economic Community, or Common Market, the European Free Trade Association (EFTA) and others, by which monopoly capital seeks accordingly to redivide the world.

The Essence of Imperialist Integration

The international state-monopoly associations arising under the watchword of "integration", on the one hand, reflect the objective tendency in the development of contemporary productive forces, further growth of the social character of production, the international division of labour, and the requirements of the scientific and technical revolution; on the other hand, their aim is to bring together the forces of monopoly capital in a number of countries and the strength of their states to achieve their selfish ends. Monopoly capital strives by "integration" to combine its efforts against the revolutionary working class of the West European countries, against the growing national liberation

movement, and, most of all, against the growing and consolidating world system of socialism. At the same time, imperialist integration is a new form of the struggle to redivide the world.

By way of illustration let us take the activity of the Common Market. In March 1957, a Treaty was signed in Rome on establishing a European Economic Community of six West European countries: the Federal Republic of Germany, France, Italy, Belgium, the Netherlands, and Luxemburg, a community that came to be known as the Common Market. In January 1973, Great Britain, Denmark, and Ireland became members of the Common Market. The Treaty of Rome envisaged the gradual removal of all customs duties and quantitative limitations on imports and exports between the members of the Community, the establishment of a common tariff and a common trade policy with respect to third countries, i.e. non-members; free movement of capital and labour inside the Community; the development of common policies on agriculture and transport; and rapprochement of the social legislation of the member countries.

Eighteen African states, Greece and Turkey joined the Common Market with the rights of associate members.

Two other agreements are linked with the Treaty of Rome: (1) that on joint exploitation of the riches of Africa (Eurafrica), and (2) that on the joint development and use of atomic energy (Euratom).

Monopoly capital in each of the members of the Common Market pursued its own specific goals. The Federal Republic of Germany, as the strongest industrial power, was interested in expanding its exports to Community countries; in gaining access so as to exploit the riches of North and Central Africa; and in the production of nuclear weapons. France was counting on increasing exports of industrial goods but primarily of agricultural products; on using West German resources to exploit her overseas territories and on expanding the sale of products from the Franco-African "Commonwealth" in the Common Market countries by reducing imports from other economically underdeveloped countries. The Italian monopoly capital hoped to increase sales of certain of its industrial and agricultural products and

to attract West European capital to develop Italy's southern provinces. It also had a particular interest in the transfer of surplus labour to Common Market countries.

"Integration" and Intensification of the Contradictions of Modern Capitalism

Capitalist "integration" has not removed the sharpest economic and political contradictions between the Common Market countries. "The contradictions between the imperialist states," it was noted by the 24th Congress of the CPSU, "have not been eliminated either by the processes of integration or the imperialists' class concern for pooling their efforts in fighting against the socialist world."[1]

The contradictions between West German and French monopoly groups have not been weakened within the European Economic Community. West German monopolies have sought to create supranational organs of the Common Market which would limit the sovereign rights of the national member states.

West German policy has been clearly directed toward weakening the position of the French monopolies, and the FRG has made maximum use of the Treaty of Rome to consolidate its own position and to ensure tariffs on industrial goods favourable to itself. At the same time, although the largest importer of agricultural produce in the Community, West Germany bought only one-third of its imports of foodstuffs and agricultural raw materials from Common Market countries and has done everything possible to oppose France's striving to monopolise the EEC market for agricultural produce, seeking to retain its right to buy such goods from other countries, including the USA, since their prices were lower than French ones.

The contradictions between the Common Market and Britain before it joined the EEC were particularly sharp. Great Britain, of course, suffered more than any other West

[1] *24th Congress of the CPSU*, p. 20.

European country from the autarchic policy of the Common Market and she tried for many years, with active support from the USA, to make a breach in the Common Market and become a member. Extension of the boundaries of the Common Market converted the contradictions between Britain and the original members into internal contradictions within the Common Market.

The contradictions between the Common Market and the USA are growing.

With Japan's advance to second place in the capitalist world, the contradictions between Western Europe and Japan, and in particular between West Germany and Japan, are also becoming sharper.

5. THE INTENSIFICATION OF INTER-IMPERIALIST CONTRADICTIONS

The Main Centres of Imperialist Rivalry

For some time after World War II the USA held not only a dominant but a predominant position in world capitalism, but in 1957 another imperialist centre–the Common Market–was formed. In 1960, in opposition to the Common Market there also arose the European Free Trade Association (EFTA); and at the end of the 1960s, Japanese imperialism had also actively joined the battle for markets and maximum profit.

As a result of the changes taking place in the post-war period in the balance of power between the major imperialist states, new groupings of monopoly capital have taken shape leading to fierce competition on a world scale. "By the early 1970," it was noted in the Report of the Central Committee of the CPSU to the 24th Congress of the Party, "the main centres of imperialist rivalry have become clearly visible: these are the USA–Western Europe (above all, the six Common Market countries)–Japan. The economic and political competitive struggle between them has been growing ever more acute."[1]

The following table gives an idea of the balance of power between the main competing imperialist centres:

[1] Ibid., p. 20.

Indicator	Country or Grouping		
	USA	Common Market (the Nine)	Japan
1. Population (millions), 1973	210.4	257	108.3
2. Gross national product (billion dollars), 1975	1,096.4	637*	251.2
3. Percentage share of capitalist industrial production, 1974	39.2	24.8	9.2
4. Percentage share of world capitalist exports, 1974	12.7	35.6	7.1
5. Percentage share of gold reserves, 1974	27.5	41.5	9.1
6. Generation of electricity (million megawatt-hours), 1971	1,941.1	1,714.3*	442.5
7. Output of steel (million tons), 1974	132	149.8*	117.1

* 1973.

It can be seen from the table that American imperialism is still the main force in the capitalist world. It has the highest indices of economic development, but it has lost its absolute predominance in world industrial production, exports and gold reserves, and is now opposed by the monopoly groupings in Western Europe and by Japanese imperialism.

At the same time, one must not be deluded by this fall in the proportionate weight of US exports and gold and currency reserves. It should be borne in mind that more than 50 per cent of all foreign investments belong to the USA. American subsidiaries produce and sell more than 200,000 million dollars' worth of industrial output outside the USA, Western Europe included. American monopolies there produce more than 90 per cent of integrated circuits, 80 per cent of computers, 55 per cent of chemical detergents, 50 per cent of semiconductors, own 33 per cent of the oil refining capacity, make 29 per cent of the motor vehicles and 20 per cent of the electronic machinery. New

investment of US subsidiaries in Western Europe is almost wholly financed from profits obtained in these countries or by loans from West European banks. Thus, American imperialism still retains its positions as the leading power in the capitalist world.

The Common Market of the Nine is very powerful and is capable of opposing the USA. One of the reasons for its extension, apart from combating the world of socialism and the growing national liberation movement, was the striving of monopoly capital in the West European countries to counter the competition from US and Japanese capital. Today, Lenin's article "On the Slogan for a United States of Europe" sounds as topical as ever. Lenin posed the question then whether a United States of Europe was a possibility and what would be its aims if such an agreement were concluded, and answered it as follows: "Of course, *temporary* agreements are possible between capitalists and between states. In this sense a United States of Europe is possible as an agreement between the *European* capitalists . . . but to what end? Only for the purpose of jointly suppressing socialism in Europe, of jointly protecting colonial booty *against* Japan and America."[1] The whole history of imperialist "integration" in Western Europe confirms Lenin's evaluation of these processes.

The rapid advance of Japanese imperialism, which has recently come into second place in industrial production in the capitalist world, deserves special comment. Japan lags behind other imperialist countries to some extent in terms of volume of national product and of certain types of output, but this is compensated by the rapid growth rates of these indicators and by the high competitiveness of Japanese goods on world capitalist markets.

The Crisis of the Imperialist Monetary System

The crisis of the imperialist monetary system is a particularly clear sign of the crisis of the world capitalist economy today and of the intensification of inter-imperialist

[1] V. I. Lenin, *Collected Works*, Vol. 21, p. 341.

contradictions. Between 1967 and 1972, the capitalist monetary system suffered seven acute attacks of "gold fever", with the result that the whole system of international payments built up after World War II was essentially destroyed.

The monetary crisis first developed in 1967 and led to devaluation of the British pound sterling and then to double devaluation of the American dollar, accompanied by a review of the parities of the national currencies with the American dollar.

The whole course of development of the world capitalist economy after the Second World War paved the way for this crisis.

Before the end of the war, at the international conference at Bretton Woods in 1944, the imperialist powers adopted collective measures to restore the disrupted monetary system of the capitalist world; the International Monetary Fund (IMF) was set up for mutual balancing of payments.

By virtue of its predominance in the economy and politics of capitalist countries, and of the fact that it held 74 per cent of the capitalist world's gold reserves, the USA got the dollar declared the main currency for international settlements and for holding reserves. The pound sterling retained this function alongside the dollar. The dollar was based on gold and the exchange rates of other currencies were expressed in dollars and so in gold. The official price of gold was established at 35 dollars an ounce (troy weight 31 grams), the price fixed in the USA in 1934. The members of the IMF pledged to support this price, not to allow deviation of parity of more than 1 per cent, and to buy up surplus dollars.

The privileged position of the dollar as the leading currency of the capitalist world enabled American monopolies to expand abroad on an unprecedented scale during this period. The USA was able to make payments to other capitalist countries not in gold, but in paper dollars, the purchasing power of which by no means corresponded to the official exchange rate. With dollars, it bought up shares of the most profitable enterprises in many capitalist countries and acquired various material values. With these dollars, the USA extended financial "aid" to other bourgeois states with the

aim of setting up reactionary governments, putting down the national liberation movement, and carrying out a policy of neocolonialism in newly-liberated countries. The enormous US military expenditure outside America was covered with dollars, in particular US foreign expenditure on the war in Indo-China and on financing Israel's aggression in the Middle East grew.

The US payments were not backed by gold or by any other hard currency. The balance of payments deficit in the USA grew steadily, in spite of a positive trade balance for a long time.

All this led to an extremely fast growth of US current liabilities to foreign banks and private individuals. As early as the beginning of 1968, more than 30,000 million dollars had collected in the world money circulation channels and in the currency reserves of other countries, each of which could be presented for exchange into gold or another hard currency. By the beginning of 1972, the figure had reached 65,000 million dollars. At the same time, the central gold reserves of the USA had dropped from 24,600 million dollars in 1948 to 10,400 million by 1972. Thus, US current liabilities were more than six times as high as its gold reserves.

The holders of dollars naturally did all they could to get rid of them, to exchange them for gold or another, more stable currency, and this was expressed in periodic attacks by holders of dollars on the money markets of the capitalist world. At the beginning of 1971, for example, because of rumours of an impending revaluation of the West German mark, i.e. of an increase in its gold content, dollars poured into the Federal Republic of Germany. In four months the central bank of the Federal Republic had to buy up 12,000 million depreciating dollars. In the end, the governments of West Germany and other countries (Austria, Belgium, Netherlands and Switzerland) had to stop buying dollars.

In August 1972, the USA halted the exchange of dollars for gold and was compelled to recognise officially the factual depreciation of the dollar. In December 1971, and again in February 1973, the dollar was devalued. A raising of the price of gold from 35 dollars an ounce at first to 38 dollars

and then to 42.2 dollars an ounce was officially recognised.[1]

All this led ultimately to collapse of the monetary system established at Bretton Woods in 1944. The US Government, the governments of the other imperialist powers, and the International Monetary Fund did what they could to save the system by taking various emergency measures, including collective ones, such as devaluation of the pound sterling and then of the dollar, revaluation of the currencies of several countries (primarily those of West Germany, Japan, and Switzerland), the establishment of Special Drawing Rights funds, and the introduction of "floating" rates of exchange. In January 1975, the International Monetary Fund recommended abolishing official gold prices.

At the time of writing, the most varied plans were being discussed in the capitalist world for a new international monetary system. Meanwhile, the monetary crisis continues to worsen. Its development is evidence of the increasing derangement and disintegration of the world capitalist economy, that Lenin had pointed out in his day, and is an irrevocable part of the deepening crisis of the world capitalist system as a whole.

The unevenness of the capitalist development is the economic basis of inter-imperialist contradictions. Its increase leads to intensification of these contradictions, and does not exclude the possibility of aggressive attempts by imperialist forces to solve their contradictions by war. Uneven development and unequal economic and political relations, it was noted at the Berlin Conference of European Communist and Workers' Parties, are a source of tension and conflict and a serious obstacle to independence and social progress.

Today, however, although the nature of imperialism has not changed, there appeared a real possibility of averting a new world war and there are powerful forces fighting for peace, namely, the world socialist system, the international working-class and national liberation movement, and other forces of progress. The Peace Programme adopted by the 24th Congress of the CPSU and being consistently implemented

[1] This, however, did not reflect the true devaluation of the dollar. On the London exchange the price of an ounce of gold reached 198 dollars at the end of 1974.

by the Soviet Union is a very important factor, the successful realisation of which will unite all forces of peace and progress in the struggle to avert the threat of war. "Facts have borne out the Programme's timeliness and realism. And though world peace is by no means guaranteed as yet, we have every reason to declare that the improvement of the international climate is convincing evidence that lasting peace is not merely a good intention, but an entirely realistic objective."[1]

Under pressure of the forces of peace and progress, imperialism is being compelled to relax international tension to a certain degree and to recognise the principles of peaceful coexistence with countries of the world socialist system. L. I. Brezhnev's talks with the President of the United States and the resulting documents and agreements, and also the series of agreements between socialist and capitalist countries concluded in recent years are evidence of this. The European Conference held in Helsinki in 1975 and the signing of its Final Act by 33 European states, the USA, and Canada was a great contribution to peace. The Soviet Union and other countries of the socialist community made great efforts to achieve this, which was one of the components of the Peace Programme. At the 25th Congress of the CPSU, L. I. Brezhnev gave the following assessment of Helsinki: "The results achieved are well worth the expended energy. The participants in the Conference have collectively reaffirmed the inviolability of the existing frontiers. A set of principles has been worked out for governing interstate relations conforming fully—in letter and spirit—with the requirements of peaceful coexistence. Favourable conditions have thus been created for safeguarding and consolidating peace on the entire continent."[2]

It must be remembered that the opposition of the aggressive forces of imperialism to detente is far from completely overcome, and that centres of tension posing a threat to world peace still exist. So as to be able to make the possibil-

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[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 21.

[2] Ibid., pp. 22-23.

ities of averting war a reality, active struggle is needed by all progressive peace forces against every sign of imperialist reaction and aggression, and for lasting peace between nations.

This task was forcefully emphasised in the final document of the Berlin Conference of European Communist and Workers' Parties. In order to ensure stability, and a further deepening and extension of detente it is necessary for the decisions taken at Helsinki to be supported and reinforced by popular masses' struggle for their full implementation, and for containing and repulsing the reactionary forces that are rejecting the results of the Conference on Security and Co-operation in Europe and trying to undermine the line to detente and the security of nations.

Chapter 19

INTENSIFICATION OF MONOPOLY OPPRESSION AND SOCIAL CONTRADICTIONS IN IMPERIALIST COUNTRIES

1. ALTERATIONS IN THE STRUCTURE OF THE WORKING CLASS AND INTENSIFICATION OF ITS EXPLOITATION

Development of the scientific and technical revolution has brought about certain changes in the social structure of contemporary bourgeois society, including the composition of the working class. In this connection quite a few books have appeared by bourgeois economists and sociologists that misrepresent the real causes and essence of these changes and once more push ideas of class harmony. Theories have become quite common that argue either that the working class has "disappeared" or "is disappearing" or that it is being replaced by a "middle class" of some sort, that has nothing in common, they say, with the class of proletarians about which Marx and Engels wrote in the last century.

In *The Affluent Society*, the well-known American economist J. K. Galbraith broadly argues for the thesis of the emergence of a new "middle class", of "white-collar" workers. This "intellectual elite" is quite separate from the working class and is supposedly going to complete the transformation of capitalism into a "welfare state". The bourgeois reformist and revisionist theories, common in the West, that there has been a democratisation of capital and a levelling of incomes of all classes of bourgeois society are also full of such ideas.

The division of contemporary bourgeois society into bourgeoisie and proletariat, far from disappearing, is in fact actually becoming more and more pronounced. The number of wage workers rises year by year. Between 1900 and 1969, the gainfully employed population of developed capitalist countries increased by 91 per cent while the number of wage earners tripled. By 1974, the number of wage earners in developed capitalist countries was between 230 and 240 mil-

lion, 49.3 per cent of whom were employed in industry, construction, communications, and transport, 3 per cent in agriculture, and 47.6 per cent in commerce and services. At present, wage earners constitute about 80 per cent of the gainfully employed population in Western Europe, and in developing countries 30 per cent.

The proletariat, however, is not homogeneous, but consists of numerous groups each with its own specific features. "Capitalism would not be capitalism," wrote Lenin in *"Left-Wing" Communism–an Infantile Disorder*, "if the proletariat *pur sang* were not surrounded by a large number of exceedingly motley types intermediate between the proletarian and the semi-proletarian (who earns his livelihood in part by the sale of his labour-power), between the semi-proletarian and the small peasant (and petty artisan, handicraft worker and small master in general), between the small peasant and the middle peasant, and so on, and if the proletariat itself were not divided into more developed and less developed strata, if it were not divided according to territorial origin, trade, sometimes according to religion, and so on."[1]

The advanced contingent of the proletariat is the industrial workers. The numbers of the industrial proletariat are growing year by year. In the middle of the nineteenth century the number of industrial workers in the most developed capitalist countries alone, for example, was less than nine million, at the beginning of this century it was 30 million, and in 1968 almost 110 million. The industrial workers continue to constitute the most numerous contingents of the working class. "Marx and Engels did not share the general fear of the development of the proletariat," Lenin commented; "on the contrary, they placed all their hopes on its continued growth."[2] Present-day Marxists also see the steadily growing working class as the main revolutionary force in capitalist countries.

Since World War II there has been a considerable redistribution of the working class between branches and spheres of production in developed capitalist countries. The number of the proletariat employed in the more intricate branches of

[1] V. I. Lenin, *Collected Works*, Vol. 31, p. 74.
[2] V. I. Lenin, "Frederick Engels", *Collected Works*, Vol. 2, p. 20.

production, like the iron and steel, metalworking, chemical, power, and radio electronic industries, have increased, the proportion of factory and office workers employed in these industries in developed capitalist countries having risen from 27.8 per cent in 1950 to 34.3 per cent in 1969. The number of workers in the services sphere has risen, while the numbers engaged in the extractive industries and agriculture (including agricultural wage workers), etc., has fallen.

The scientific and technical revolution is accompanied by an improvement in workers' skills. This is an uneven process, however, and for a significant part of the workers employed in traditional industries, the scientific and technical revolution entails considerable deprivation, growth of unemployment, and loss of qualifications. Simultaneously with the spread of partial automation in all countries, the numbers of "trained" workers increased. In France they are called "operatives without qualification". They include those carrying out simple, uncomplicated operations on automatic machines, operations that can be learned directly on the spot or on short courses.

Thus, on the whole, the stratum of highly skilled workers grows alongside an increase in the proportion of semi-skilled or "trained" workers. In the USA, for example, the proportion of skilled workers in the total number employed rose from 33.1 per cent in 1950 to 36.2 per cent in 1970, and the proportion of semi-skilled workers from 51.9 to 52.1 per cent, while the proportion of unskilled workers dropped from 15 to 11.7 per cent.

In connection with the scientific and technical revolution there has been a shortage of skilled workers whose training requires big expenditures of time and money, though there is a large number of officially registered unemployed. These vacancies cannot be filled by the current unemployed, since most of them do not have the necessary education and special training; bourgeois governments and monopolies are not, however, prepared to spend any significant amount to eliminate this situation, and the workers themselves are not in a position to do so. It is one of the features of the decay of capitalism today.

The sphere of exploitation of wage labour by capital is expanding. Monopolies are penetrating the services catering

for people's daily needs (repair services of all kinds, especially of electrical equipment, sphere of communal services, and so on) and this has encouraged the appearance of new groups of the proletariat.

The engineering and technical workers who are not involved in exploitation, but participate directly in the process of material production (the numerous workers in factory laboratories, draughtsmen, etc.) can also be considered a new group of the working class. They create surplus value like the rest of the working class. Such workers comprise from 40 to 60 per cent of all those employed in the US aerospace, chemical and atomic industries.

The bourgeoisie try to set these "white-collar" workers against all other workers. Bourgeois statistics include them as a kind of "middle class" that supposedly has nothing in common with the working class. Their class position and role in social production do not, however, differ fundamentally from those of other workers. Their basic vital interests coincide with those of the working class as a whole. The working-class movement is the only defence of their future. As the 1969 International Meeting of Communist and Workers' Parties noted: "In this age, when science is becoming a direct productive force, growing numbers of intellectuals are swelling the ranks of wage and salary workers. Their social interests intertwine with those of the working class; their creative aspirations clash with the interests of the monopoly employers, who place profit above all else."[1]

The proletarianisation of intellectuals and office workers does not, however, mean they are being converted into the industrial proletariat. There are still important social differences between these groups of wage earners and the industrial proletariat which remains the vanguard revolutionary force in society.

So, as capitalist production grows, so do the numbers of the working class creating surplus value for capital and their weight in the population. The sphere of capitalist exploitation expands; it grows in intensity, and the rate and mass of surplus value increases, as described in detail in Chapters 4, 5, and 16.

[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 25.

2. INTENSIFICATION OF MONOPOLY OPPRESSION IN AGRICULTURE AND MASS RUIN OF THE PEASANTRY AND FARMERS

The concentration and centralisation of capital in agriculture, and the expansion of monopoly domination in the farming of developed capitalist countries markedly speeded up differentiation in the village and the ruin and elimination of small-scale commodity production. The world agricultural crisis and the technical progress in agriculture in the imperialist countries have done much to accelerate this process.

Large capitalist agricultural undertakings, already at a considerable advantage in competition, went over, with state support, to mass use of the latest agricultural machinery and application of the modern achievements of agrobiology, and began to electrify the processes of production and to employ chemical methods. The agriculture of the developed capitalist countries made the transition from manufacture to machine production.

Between 1900 and 1969, the proportion of the population employed in agriculture dropped in developed capitalist countries from 45.4 to 12.4 per cent; in 1973, agricultural wage workers comprised only 3 per cent of the total number of wage workers.

The majority of tractors and other farm machines are concentrated on big farms; this goes hand in hand with concentration and centralisation of agricultural production and the squeezing out of small-scale production by large-scale capitalist production.

The penetration of monopoly capital into agriculture and the considerable extension of the ways small peasant farms are exploited has not only been achieved through the methods of market competition, but also by enmeshing the peasants in various one-sided, binding agreements. The farmer tied by such agreements frequently loses his independence and becomes in essence a hired worker on his own farm, with an extremely low remuneration for his work.

At the same time, monopoly capital is both economically and politically interested in building up large-scale, capitalist undertakings in agriculture, in tune with the needs of

monopolised industry and capable of being a social base for the financial oligarchy in the village. The exploitation and ruin of peasants and farmers is therefore being much intensified by specific methods inherent in state-monopoly capitalism. The agricultural policy of ruling circles of all imperialist states is aimed at supporting big and very large agricultural undertakings in every way, and at elimination (sometimes enforced) of small-scale production. The US Secretary for Agriculture, for example, announced that, of the three million farms existing in the country, not more than a million are needed to satisfy the domestic and foreign market, and that the others should go out of existence. The US Administration spends thousands of millions of dollars on a farm support programme benefiting big capital in agriculture.

The US Administration extensively finances the buying up of land from small farmers.

The system of price support for agricultural produce going mainly for export is also financed from the budget. Since supplies of produce at guaranteed prices must be in a certain quantity and meet strict conditions, it is mainly big and very large farms that can make use of it. Medium and small farms have to sell their produce to the commission agents of the monopolies at prices that do not cover their costs of production. As a result of the low productivity of labour on small farms (compared with highly mechanised ones), the farmers are unable to cover their costs of production even when they do succeed in selling their produce to trade and credit corporation at the guaranteed prices. Not being in a position to compete with the big capitalist farmers, supported by the state, most US small farmers are being bankrupted and swelling the ranks of the industrial reserve army and the army of "migrant" farm labourers.

The overwhelming bulk of the produce bought up by trade and credit corporation is exported at dumping prices, which leads to the economic ruin of small commodity producers in a whole number of countries. A similar anti-peasant policy is being carried out in West European imperialist countries.

The tax system is one of the levers by which imperialist states plunder and ruin farms. As a rule, between a quarter and a third of peasants' incomes are absorbed by direct and

indirect taxes. The larger part of these funds are spent on militarisation and thus come to the monopolies.

An aspect of militarisation of the economy is the taking over of large areas of farm land for military bases, testing ranges, aerodromes, and other military purposes. The USA, for example, uses 31 million acres in foreign countries alone for such purposes. Four million hectares are used for military purposes in West Germany.

Thus, the domination of finance capital, and the "farm programmes" implemented by monopolistic states have led and are leading to the ruin of an ever increasing number of small and medium peasants. As the Programme of the CPSU says: "The development of capitalism had dissipated the legend of the stability of small peasant farming once and for all. The monopolies have seized dominant positions in agriculture as well. Millions of farmers and peasants are being driven off the land, and their farms are being brought under the hammer. Small farms survive at the price of appalling hardships, the peasants' underconsumption and excessive labour. The peasantry is groaning under the burden of mounting taxes and debts. Agrarian crises are bringing ever greater ruin to the countryside."[1]

3. MONOPOLIES AND THE URBAN MIDDLE STRATA

The development of state-monopoly capitalism is also pressing heavily on the position of other strata of bourgeois society. The urban petty bourgeoisie whose businesses have become a kind of capitalist out-work and appendage of the big capitalist firms that dominate industry and trade, suffer considerably. The owners of all little businesses servicing and repairing motor vehicles, radio and television sets, and domestic appliances, and also the owners of traders' stalls, petrol pumps, and so on, must be included in their number.

Lenin foresaw that, with the development of large-scale machine industry, the number of small businesses, formally independent, but in fact dependent on big business, would

[1] *The Road to Communism*, p. 475.

inevitably increase. "A number of new 'middle strata'," he wrote, "are inevitably brought into existence again and again by capitalism (appendages to the factory, work at home, small workshops scattered all over the country to meet the requirements of big industries, such as the bicycle and automobile industries, etc.)."[1] Events have proved his predictions correct.

Monopoly capital has an interest in the existence of small, nominally independent enterprises, since they either supply the monopoly firms with parts and materials at low monopoly prices, or speed up realisation of the output of the monopolies, saving the latter additional outlay. In the USA, for example, more than 26,000 small "independent firms", with one to three workers, work for General Motors. There are 50,000 such "firms" working for the US Steel Trust, and 40,000 for Standard Oil. But whereas General Motors makes more than 25 per cent profit on its invested capital, the profits of its "out-workers" are 3 to 3.5 per cent.

The people employed in such businesses represent, in essence, a form of relative overpopulation. In crises, when unemployment rises, their numbers grow, and fall during a boom. The average annual income of such "businessmen" does not exceed the earnings of a skilled worker.

An indication of the extreme instability of small "firms" is their average functional life, around two years. The workers employed in small firms in capitalist towns suffer greatly from the oppression of monopoly capital.

The development of the productive forces and penetration of monopolies into the various spheres of modern bourgeois society engender other intermediate proletarian and semi-proletarian strata of the population.

Technical progress and the growing role of science in material production are accompanied by a growth in society's need for teachers, scientific workers, medical workers and employees of cultural institutions. Half a century ago, the people employed in these fields were, as a rule, in the position of independent entrepreneurs and were recruited from the exploiting classes. Monopoly capital has converted schools,

[1] V. I. Lenin, "Marxism and Revisionism", *Collected Works*, Vol. 15, p. 39.

scientific, medical and most educational institutions into capitalist enterprises, and their employees into wage earners exploited by capital. Teachers, cultural workers, and others have to work under control of the monopolies, to carry out their social commands, and frequently, willingly or unwillingly, to propagate bourgeois ideology.

As capitalism grows, so too does the number of people employed in the sphere of circulation. The number of sales agents and office workers and of workers in credit and finance institutions in particular increases. From their relation to the means of production and the level of their earnings, the numerous rank-and-file workers in trade and credit and finance institutions must be included in the proletariat. As we saw in Chapter 9, they do not create either value or surplus value, but exploitation of their labour by the bourgeoisie ensures the latter a share of the surplus value created in the sphere of material production. As for the upper ranks of this category of workers, they directly border with the bourgeoisie.

As state-monopoly capitalism develops there is growth of the bourgeois state apparatus and of all its organs (the police, the army, and the judiciary). There is also an increase in the numbers of workers in institutions engaged in ideological indoctrination (the bourgeois press, radio and television). The earnings of rank-and-file workers in these institutions are often lower than those of skilled workers; at the same time they serve, in the hands of the bourgeoisie, as instruments of oppression and brainwashing of the working masses. The oppression of monopoly capital makes the position of the rank-and-file workers in these institutions worse. Many of them are beginning to see more and more clearly that they have interests common with other groups of working people. The quite broad involvement of civil servants in the strike movement of the working class confirms this conclusion.

Thus, analysis of the class structure and position of the various classes and strata in modern bourgeois society provides evidence that most of the people in imperialist countries suffer from the oppression of monopolies. This is the objective basis for bringing the majority of the nation together in a united anti-monopoly front.

"The convergence of interests of the working class, farm-

ers, urban middle strata and intellectuals as well as their growing co-operation reduce the social foundations of monopoly power, sharpen its internal contradictions and promote the mobilisation of broad masses of people for the struggle against monopolies and imperialism," the 1969 International Meeting of Communist and Workers' Parties noted.[1] The working people are increasingly linking the struggle against monopoly capital with that against the bourgeois state, which guards the interests of the monopolies.

4. THE SHARPENING OF CLASS CONTRADICTIONS AND CLASS STRUGGLE

The sharpening of class contradictions finds expression in the class struggle in its various forms.

The apologists of capitalism assert that Marxism treats the economic struggle of the working class negatively, considering it a hopeless business. In *Wages, Price and Profit*, however, Karl Marx wrote that if workers did not fight for higher wages, "they would be degraded to one level mass of broken wretches past salvation.... By cowardly giving way in their everyday conflict with capital, they would certainly disqualify themselves for the initiating of any large movement."[2]

Today the economic struggle of the proletariat and the other working masses is interwoven with the political struggle. "Under state-monopoly capitalism, when the direct opponents of the proletariat in the economic sphere are not only individual entrepreneurs and their combines, but also the bourgeois state itself, the economic struggle of the workers assumes a political character."[3] The working class's struggle for its economic and political rights has become especially intense in the third stage of the general crisis of capitalism as the increase in the number of strikes and of workers

[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, pp. 25-26.

[2] Karl Marx and Frederick Engels, *Selected Works*, in three volumes, Vol. 2, p. 75.

[3] *On the 50th Anniversary of the October Revolution*, p. 57 (in Russian).

involved testifies. In 1974-75 alone, the numbers taking part in mass actions of the working people against capital were 124 million, including 97 million in developed capitalist countries. The leading role in this struggle is played by the working class. "The strike wave," the Report to the 25th Congress of the CPSU said, "which involves diverse sections of working people, has risen to the highest level in the past several decades. The strength and prestige of the working class are greater, and its role of vanguard in the struggle for the interests of working people, the true interests of the nation, has increased."[1]

"Left" revisionists slander the working class of capitalist countries, saying that its revolutionary fervour has allegedly weakened. At the international forum of Communists in 1969, L. I. Brezhnev cited convincing evidence that this is a lie. "Suffice it to say," he declared, "that from 1960 to 1968 a total of over 300 million persons took part in strike struggles, as compared with 150 million over the preceding 14 years. This fact alone gives the lie to the assertions about a weakening of the working class's fighting spirit."[2] In the years following, the scale and sharpness of the strike movement in imperialist states continued to increase.

Not so long ago there were countries that the bourgeoisie considered foci of "social peace"; now there is not a corner of the capitalist world where the working people are not fighting for their rights, and the bourgeoisie is having to make more and more frequent concessions.

The strike movement of the working class is in the present stage directed mainly against the despotism of the monopolies. Strikers are demanding everywhere that the introduction of new technology should not be effected at the expense of the working people and that workers dismissed as a result of mechanisation or automation should be given new jobs and retrained.

The number of political strikes and of those involved has increased significantly. The workers are demanding democratisation of the social system, expressing solidarity with

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 34.

[2] L. I. Brezhnev, *Following Lenin's Course*, pp. 168-69.

peoples fighting for national independence, opposing the arms race and military adventurism, and supporting peace. Their degree of organisation is growing in the struggle for these demands, and so is their resistance to the oppression of monopolies. Strikes of whole industries and general nation-wide strikes are becoming more and more common.

The trade unions are playing a major role in organising the struggle of the working class. An ever increasing drive for unity of action is being observed in the trade union movement, both between trade unions of different orientation and within unions at rank-and-file level.

The working class is not alone in its struggle against the monopolies. Its closest and natural allies are the small and middle peasants. In all imperialist countries the peasants and small farmers are struggling actively. In the USA, farmers are making organised protests against the policy of ruining working farmers and demanding a reduction of farm machinery prices, etc. and raising prices of farm products.

The struggle of the peasants and farmers in the Common Market countries has taken on an immense scale. In the spring of 1971, for example, about 100,000 peasants from Belgium, West Germany, France, Italy, the Netherlands and Luxemburg came to Brussels, the "capital" of the EEC. They held a mass demonstration against the Mansholt Plan, which envisaged the ruin of millions of small farms in these countries. The demonstration ended in bloody clashes with the police, who used weapons against the peasants. Such demonstrations have become traditional. In September 1974, a European Day of Peasant Action was held in Brussels. The peasants' demonstrations were being supported by the working class. Thus the French General Confederation of Labour and the peasant union have agreed on joint action in defence of the working people.

The working class and the Communist and Workers' parties support the struggle of the peasantry. That does not, however, mean that Marxists stand for conservation of the small peasant farm and are against large-scale farming enterprises in general. They consider the organisation of large-scale farming essential, without however ruining and expropriating the working peasants, through voluntary co-operation during the building of socialism.

Under state-monopoly capitalism, the struggle of the working class and other sections of the working people against the despotism and oppression of the monopolies, inevitably turns into a struggle against the bourgeois state. Imperialism has not experienced such a rapid upsurge of political and economic struggle against the domination of monopoly on such a wide scale for a long time among the broadest masses of the people. The most varied groups are involved, trade unions, young people, women, the religious masses, and various democratic organisations. As a result, favourable conditions are being created for uniting all democratic trends and movements into a political alliance to oppose monopoly capital. What is happening is exactly what Lenin wrote about at the beginning of his revolutionary and theoretical activity: "As man's history-making activity grows broader and deeper, the size of that mass of the population which is the conscious maker of history is bound to increase."[1]

The guarantee of success in this struggle, however, is the leading role of the working class in such an alliance. Only the working class, headed by Marxist-Leninist parties, is in a position to lead all the working and exploited people to victory, the overthrow of the power of capital, and the triumph of socialism.

[1] V. I. Lenin, "The Heritage We Renounce", *Collected Works*, Vol. 2, p. 524.

Chapter 20

CRITIQUE OF MODERN BOURGEOIS AND REFORMIST ECONOMIC THEORIES

1. THE IDEOLOGICAL SOURCE OF CONTEMPORARY BOURGEOIS POLITICAL ECONOMY

The Classical School of Bourgeois Political Economy

Bourgeois political economy arose in the seventeenth century and has undergone a considerable evolution since, underlying which are the development of capitalism and the intensification of its contradictions, sharpening of the class struggle of the proletariat, and the change in the balance of class forces.

The founders of the classical school of bourgeois political economy, and primarily the British economists Adam Smith and David Ricardo, initiated investigation of the objective economic laws governing capitalist production, like the law of value and the law of surplus value. They also began to analyse capital and its reproduction, wages, profit, and rent.

Smith and Ricardo, basing themselves on the real life of society, and employing the method of scientific abstraction, made theoretical generalisations and got to the heart of certain economic processes.

Classical bourgeois political economy was scientific in character, but was limited by the narrow bounds of bourgeois conceptions of the eternal and undoubtedly progressive nature of capitalism. As a consequence, it also included a number of unscientific elements.

The bourgeois outlook did not allow the British economists to investigate such burning problems as the origin and essence of surplus value, or to reveal the antagonistic contradictions of capitalism, or to draw the conclusion that it was historically transient. Even so, the scientific elements predominated in their work since the bourgeoisie was still a revolutionary class at that time, interested in objective analysis of economic processes.

The Rise of Vulgar Political Economy

A different situation was created in the 1830s when the bourgeoisie of the most developed countries of the day, like Great Britain and France, gained political power and the class struggle of the proletariat took on a clearly expressed form. The first writers expressing the interests of the labouring man were the Utopian Socialists, who used classical bourgeois political economy, mainly the labour theory of value, to criticise the bourgeoisie and to substantiate their conclusions on the need for a fundamental reconstruction of society. In these new circumstances, bourgeois economists rejected scientific investigation of the laws governing the development of capitalism, and confined themselves to examining the superficial phenomena of bourgeois society, claiming that they were fundamental.

This approach corresponds to the interests of the bourgeoisie, since the essence of capitalist exploitation appears on the surface in a distorted, concealed form. The main job of bourgeois economists proved to be conscious apology for capitalism and covering up of its deepest contradictions.

There was a time when bourgeois political economy directed its sharpest criticism against the feudal lords, as an obsolete and reactionary class. Now it began to be used against the progressive, revolutionary working class.

The main apologetic theories that bourgeois economists still use were developed in the nineteenth century. To counter Karl Marx's labour theory of value bourgeois economists put forward the theory of factors of production, according to which labour, capital, and land take an equal part in creating the value of commodities so that the end-product is distributed proportionately among their owners. By that kind of reasoning they hide the role of labour as the sole source of value and surplus value, i.e. cover up capitalist exploitation. Theories determining the value of objects according to their utility were invented toward the same end.

Thomas Malthus's theory that laws of nature cause social calamities, poverty and unemployment under capitalism also gained wide currency. Nature, on the one hand, "induces people to reproduce" and, on the other, "does not provide sufficient space or food". This theory revealed with extreme

cynicism the servile, apologetic role of bourgeois economic science and its aim somehow or other to conceal the sharpest antagonistic contradictions of capitalist society.

The Class Essence of Bourgeois Economics

In the era of imperialism and the general crisis of capitalism, these theories have undergone certain modification because of the changing conditions of the class struggle. New theories have also appeared, reflecting the present-day scientific and technical revolution, the development of state-monopoly capitalism, and the emergence and growing strength of the socialist countries.

Under today's conditions of the general crisis of capitalism, bourgeois economists do not confine themselves to ideological defence of capitalism, but are increasingly concerned in substantiating economic policy and in working out practical propositions for strengthening capitalism's position. In the past, they paid comparatively little attention to questions of economic policy and applied economics; now, these problems have come to the fore. As the American economist A. H. Hansen remarked, "practical problems have become the main goal of economic analysis". Underlying this change is the growing socialisation of production, which has reached such a level that it has become necessary to regulate it and to solve major economic problems. The growth of state-monopoly capitalism, the involvement of the state in the process of reproduction, the increasing difficulties of marketing, and the rise in unemployment operate in the same direction.

An extremely important factor in the modern development of bourgeois economics has been economic competition of the two systems; in order to maintain their position, bourgeois governments are compelled to concern themselves with the problem of rates of growth, using the suggestions of the economists to this end.

There are *two main trends* in contemporary bourgeois political economy: *(a) the theory of "regulated capitalism" and (b) the neoclassical school* (the theory of "free enterprise"). In the 1970s, a new trend known as the *institutional-social*

school took shape. It embraces the theories of the "industrial society" and all other theories of the "transformation of capitalism". The theory of "regulated capitalism" has had the leading role as it proved more convenient for justifying the ideology and practice of state-monopoly capitalism.

2. THE THEORY OF "REGULATED CAPITALISM"

The Essence of Keynes's Theory

The founder of this trend was the English economist John Maynard Keynes. It recognises the existence of such defects in the capitalist system as "underemployment of people and resources", i.e, unemployment and crises. Keynes openly explained his interest in the problem of employment as fear of the revolution to which excessive unemployment might lead; but he was not at all concerned with its complete elimination, since capitalists need an army of unemployed in order always to have cheap labour. In his discourse on full employment, Keynes sought to conceal the anti-popular essence of state-monopoly capitalism and to discover ways for a certain reduction of unemployment.

Keynes tried to find the causes of unemployment and crises in the psychology of human beings. Since an increase in employment entailed growth of the national income, consumption, he claimed, also rose, but more slowly than incomes, since the "propensity to save" grew along with incomes. "The fundamental psychological law," writes Keynes, "is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income."[1]

People's psychology is such, according to Keynes, that a growth in incomes leads to an increase in savings and, consequently, to a relative lowering in consumption. The drop in consumption, in turn, is expressed in a fall in demand; demand influences the scale of production, and so the level of employment. According to Keynes, therefore, a lack of

[1] J. M. Keynes, *The General Theory of Employment, Interest and Money*, London, 1936, p. 96.

demand for consumer goods is rooted in human nature, in people's psychological inclinations, and not in the production relations of capitalism, causing a relative and absolute deterioration in the condition of the working people.

Keynes did not consider unemployment and crises to be inevitable in capitalist society. This is certainly not a firm principle which is not amenable to change, he claimed. The mechanism of capitalism, however, proved to be incapable of "eliminating" these phenomena by itself.

Keynes posed increase in private and government investments as the decisive means of increasing the general level of employment, and gave preference to investments that did not raise the mass of consumer goods. On this point he had arms production primarily in mind. Keynes formulated the so-called employment multiplier and calculated that a rise in investments ensured a rise in employment two or three times as great. The only correct propositions in his theory were that there is a chain link between the branches and sub-branches of social production, and that investment in one industry stimulates an expansion of production in other, related industries.

Credit for the discovery of this connection, however, is not Keynes's; it was borrowed from the Marxist-Leninist theory of reproduction. Keynes misrepresented the connection, above all, in ignoring the contradiction between production and consumption, and in starting from the assumption that production can be expanded independently of private consumption. Under capitalism, however, production of the means of production is limited by private consumption, since in the final analysis it is not carried out for the sake of production as such. The claim that initial investment takes place independently of private consumption is therefore completely without foundation. Under capitalism, effective demand grows more slowly than the possibilities for increasing production and this is due to the basic economic law of capitalism. Keynes also left out of account the growth of the organic composition of capital. New investment, however, usually takes place at a higher level of technology and, consequently, requires a relatively smaller number of workers. Given the chronic undercapacity of enterprises, new demand can be satisfied by using existing capacities, with no need to build

new factories. So Keynes's assumptions do not correspond to reality.

The increase in investments suggested by Keynes cannot eliminate unemployment. Regardless of whether capital is accumulated by private individuals or by the bourgeois state, it is inevitably accompanied by an increase in the organic composition of capital and, consequently, leads inevitably to a growth in unemployment. The capitalist system, with its growing parasitic consumption, is not capable of ensuring the rate of accumulation necessary to eliminate unemployment. Finally, the capitalists are not interested in getting rid of unemployment completely, since it is a most important lever for intensifying exploitation of the working people. The expansion of arms production advocated by Keynes, to be carried out at the expense of the working masses, would lead to a further lowering of consumption, growth of unemployment, and deeping of economic crises.

The Collapse of Keynesian Illusions

In the capitalist world Keynes's theory was rated as a "revolution in economics". Many bourgeois economists declared that the means had now been found to manage the capitalist economy. Keynes's theory and practical suggestions were widely used in the economic policies of a number of capitalist countries, primarily in Britain and the United States. Its results, however, did not live up to the expectations of bourgeois economists and politicians.

Experience of regulating the interest on loan in order to stimulate private investment showed how completely unfounded Keynes's theory was. During recessions in production, the governments of the USA and Britain reduced the rate of interest in order to stimulate a growth of production; it did not, however, in fact have the desired effect since the capital went not into home production but abroad, where the rate of interest was higher. The additional issue of paper money recommended by Keynes led to inflation but did not remove unemployment. The attempts of bourgeois governments to halt the growth of production by raising the rate of interest during industrial booms also proved futile as the

growth was stimulated by a rise in profits. The rise in the rate of interest was accompanied, moreover, by a flow of foreign capital into the country.

Owing to these circumstances, bourgeois economists have been compelled to admit the failure of Keynes's theory. The American economist S. Harris wrote, after the recession in production in the USA between 1953 and 1954, that Keynes had not foreseen many difficulties.

American Keynesians were not content with Keynes's proposals. They advocated regulation of state expenditure as the main factor for achieving economic stability, the major role in this to be played by the state budget, adjustment of tax rates and depreciation allowances, and social insurance payments. These they claimed to be *"built-in stabilisers"* that automatically give support to the required level of "effective demand".

In practice, these measures too proved rather ineffective. A cut-back in state expenditure, like regulation of the rate of interest, or changes in rates of taxation, could not eliminate crises and unemployment, and bourgeois economists had to admit the limitations of the "built-in stabilisers". The American economist Paul Samuelson, in particular, wrote about this, pointing to the difficulties existing in planning public services, and in deciding precisely when it was necessary to speed up things and when to apply the brakes. Samuelson also drives attention to the fact that private owners can cut back or completely refrain from investment.

Another serious obstacle was the fact that "built-in stabilisers" operated with a significant time lag. Many economists believe it can be up to 11 months, and it is quite possible to pass from one phase of the cycle to another during that time, which means, for example, that instead of stimulating business activity in the new phase of the cycle, the "stabilisers" will operate in the opposite direction.

Attempts to eliminate crises in the USA by means of the arms race have also failed. Some bourgeois economists are of the opinion that, with careful planning and an increase in people's incomes, the US economy could get along without military expenditures.

Summing up the results of Keynesian policies in Great Britain and the USA, the British economist Andrew Shonfield

wrote: "There is indeed an element of paradox that the two nations which had earliest and most readily absorbed the Keynesian message–Britain and the United States–were also the least successful among the Western capitalist countries in managing their economies after the Second World War."[1]

The advocates of "free enterprise" have been even sharper critics of Keynes. The American economist Henry Hazlitt has published several works in which he claims that "what is original in the book is not true; and what is true is not original".[2]

The main, Keynesian line of bourgeois political economy thus suffered a crisis in the second half of the 1950s, an important factor in this being the world economic crisis of 1957-58, which once more confirmed the erroneousness of the illusion that crises and unemployment can be eliminated under capitalism.

Theories of Economic Growth

In the 1950s, the problem of economic growth rates took on particularly great significance for bourgeois economists, since the balance of power between capitalism and socialism by that time had changed sharply in favour of socialism. E. D. Domar wrote in 1957 that an increase in the growth rate of the capitalist economy was becoming a condition of capitalism's existence. Another American economist, R. W. Campbell, wrote: "The relative power and influence of those two types of economy have changed dramatically with the past thirty years."[3] The accumulating circumstances necessitated a corresponding reconstruction of bourgeois economics.

The criticism of Keynesianism gave birth to *Neo-Keynesianism or the theory of economic growth.* Keynes's theory was based on the situation in the 1930s, when the capitalist economy was in a state of depression. What is specific about Neo-

[1] A. Shonfield, *Modern Capitalism. The Changing Balance of Public and Private Power*, Oxford University Press, London, 1965, pp. 64-65.

[2] Henry Hazlitt, *The Critics of Keynesian Economics*, Princeton, New Jersey, 1960, p. 3.

[3] R. W. Campbell, *Soviet Economic Power. Its Origination, Growth and Challenge*, London, 1960, p. 1.

Keynesianism is that it tries to create a general theory of reproduction to fit various market situations. The main aim of economic policy Neo-Keynesians declare to be not to guarantee full employment but to achieve *stable economic growth rates.* They believe that the employment problem can also be solved in that way.

Bourgeois economists consider the main growth factors to be *capital investment, labour productivity, and effective demand.* They take into consideration the influence of an improvement in workers' skill, of foreign trade, and of other factors on economic growth, assigning the main role in achieving high growth rates to the state.

As a result of the rapid development of state-monopoly capitalism, *"economic programming"* is becoming increasingly common. Bourgeois economists write much about "planning" and occupy themselves in working out long-range forecasts. Long-range forecasting, in fact, is a new element in bourgeois economics. In the past, forecasts had been made from time to time, not regularly, and their main aim had been to predict changes in the market situation. Nowadays they are intended to substantiate concrete practical economic policy measures and are acquiring the nature of programmes.

Forecasting gave rise to discussion of the methods and possibilities of forecasts. Some economists consider long-range ones to be, in general, unrealistic. There is also disagreement over the base point for making them; whether, for example, to take population growth, increase in investment, or other factors. In pointing out the defects of any particular approach, bourgeois economists do not touch on the major weakness inherent in all bourgeois forecasts, i.e. the absence of scientific analysis of changes in the economy of contemporary capitalism and in the development of its productive forces and production relations, resulting in corresponding changes in the character of the links between the different spheres of reproduction. Economic *forecasts do not take into account either the contradictions of capitalism or economic crises.*

Bourgeois economists strive to combine this type of forecasting with economic policy, using some form of state regulation of the economy, and search for new methods of raising aggregate "effective demand". The Neo-Keynesians, however, have not succeeded in introducing any radical changes in this

field. While acknowledging that adjustment of the rate of interest has proved ineffective, they still retain this measure, putting their stress on changes in the rate for long-term credit. An important part in the Keynesians' practical suggestions is played, as before, by the taxation system (tax subsidies to corporations) and manoeuvring with depreciation allowances (accelerated depreciation). More recently there have been proposals to expand the "investment in the individual" (i.e. to increase expenditure on education in order to raise labour productivity).

The superficial approach of their consideration of phenomena and the fact that they express the interests of different exploiting groups between which there are certain contradictions are bringing about an increasing differentiation of trends in contemporary bourgeois economic theories. The Neo-Keynesians, for example, argue about the degree, forms, and methods of state intervention in the economy. There is disagreement both on the sources of finance for state expenditure and on their use. Among the Neo-Keynesians there is a division into a "left wing" (Joan Robinson in Great Britain and the American Leon Keyserling), who stress that growth of aggregate social demand depends not only on psychological factors but also on the distribution of the national income. The Left Keynesians propose expanding consumer demand by taking democratic measures such as raising wages and increasing expenditures on social and cultural needs; but while correctly pointing to certain real facts, they nevertheless cannot give a scientific analysis of the problem.

The major problem that bourgeois economics has come up against is that it is not capable of working out methods either of regulation that would combine the interests of private entrepreneurs (primarily those of the monopolies) and the social and economic needs of social development, or of combining centralised regulation and market spontaneity. The nature of these difficulties is such that they cannot be resolved under capitalism. In capitalist society, the objective basis for national economic planning is missing, i.e. social ownership of the means of production.

The instability of the growth rates in capitalist economies and the growth of inflation and of the national debt have all proved a failure of the theories of economic growth. "Now

everyone can see that one of the main myths created by reformists and bourgeois ideologists has collapsed," L. I. Brezhnev said at the 25th Congress of the CPSU, "the myth that present-day capitalism is able to avert crises."[1]

3. THE NEOCLASSICAL SCHOOL (OR THE "FREE ENTERPRISE" THEORIES)

Characteristic of the neoclassical school is the assertion that the market mechanism, which operates automatically ensuring the necessary balance and stability of the economy, plays the decisive role. Unlike the Keynesians, these economists *consider the decisive thing in the development of the economy to be not the level of demand but production which, in their opinion, itself leads* to a corresponding rise in demand. They bring optimal use of resources to expand production to the foreground.

The neoclassicists use the *microeconomic approach,* i.e. they do not base themselves on national economic indices but on study of individual firms, of the prices of individual commodities, and so on. They do not consider the state the decisive force in development, and suggest that its role *is simply to create favourable conditions for entrepreneurs.*

The advocates of "free enterprise" are the most avowed defenders of capitalism, and ideologists of Big Business, demanding wage cuts, tax reductions for corporations, and subsidies for monopolies. Unlike them the Keynesians use more subtle and camouflaged methods of defending state-monopoly capitalism.

Bourgeois ideologists took the Federal Republic of Germany as their model for the application of the theories of "free enterprise". The high growth rates of its economy, however, proved unstable (as was to be expected), so that West German economists, too, have begun to criticise the theory of the "social market economy", demanding an increase in state regulation of the economy.

Given the development of state-monopoly capitalism, the neoclassicists had to recognise the need for state intervention

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU,* p. 34.

in the economy. Thus, the two trends in bourgeois economics are tending to converge, which has found expression in the theory of *neoclassical synthesis* advanced by Paul Samuelson. He attempts to combine certain of the fundamental theoretical propositions of the ideologists of free enterprise with state regulation of the economy, and Keynesian methods of regulation via the budget with neoclassical methods involving financial and monetary influence on the market situation.

At present another of the recurrent reconstructions of bourgeois economics is taking place. Neoclassical synthesis is being supplemented by contemporary sociological theories, in particular that of J. K. Galbraith, who advocates an increase in non-market regulation of the economy. The direction this regulation should take has to be determined on the basis of agreements between the state, the big corporations, and the trade unions.

4. BOURGEOIS THEORIES OF THE "TRANSFORMATION OF CAPITALISM"

In recent years, bourgeois sociologists and economists in several countries, but especially in the USA, have been vigorously spreading the idea that there has been a "transformation of capitalism" in this century and that modern capitalism differs fundamentally from that studied by Adam Smith and Karl Marx. They write about the capitalist revolution, that has either already taken place or is now in progress, bringing changes in the nature of capitalism.

"To conceal its exploiting and aggressive nature, capitalism resort to theoretical whitewash ('people's capitalism', the 'welfare state', the 'affluent society', etc.)," the 1969 International Meeting of Communist and Workers' Parties said.[1]

Modern capitalism, of course, does not in fact possess such characteristics. During its general crisis, its basic contradic-

[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 20.

tion, that between the social character of production and private capitalist form of appropriation, has become even more pronounced, widening the gulf between colossal wealth at one pole of society and poverty at the other.

The exacerbation of all capitalism's contradictions during its general crisis makes it extremely difficult to extol such foundations of capitalism as the domination of private ownership of the means of production and the division of society into antagonistic classes. Bourgeois economists are, therefore, compelled constantly to affirm that there has been a transformation of private into collective ownership and a merging of classes.

The main intention of the theories of the "transformation of capitalism" is to draw a veil over the general crisis of capitalism, to conceal the dominance of monopoly, and to slander the countries of the socialist world.

The leading propagandists of the theories of the "transformation of capitalism" in the USA are A. A. Berle, author of *The 20th Century Capitalist Revolution* and *Power without Property*, J. K. Galbraith (*The Affluent Society*) and L. Kelso and M. Adler (*The Capitalist Manifesto*). In Great Britain, there is a special organisation, the Economic League, for spreading ideas of "people's capitalism".

The myth of "people's capitalism" found fertile soil in West Germany. In 1957, L. Erhard, then West German Economics Minister, published a book (*Wohlstand für Alle*), in which he described the Federal Republic as a "welfare state".

The Myth of the "Democratisation of Capital"

One of the foundations of the theories of the "transformation of capitalism" is the myth of the "democratisation of capital". Bourgeois economists argue that the joint-stock type of company and the wide floating of shares among the people signifies a democratisation of capital, the transformation of everybody into capitalists, co-owners of capital, and receivers of dividends. A. A. Berle, for example, strives to prove that factory and office workers are today the actual owners of capitalist enterprises and that private ownership has disappeared.

These ideologists are completely silent about the fact that shares are differently distributed among different sections of society according to quantity and value. For them, the owners include equally finance capitalist magnates and those who hold only one share. Progressive American economists have estimated that 70 per cent of shares (by value) are concentrated in the hands of those receiving large incomes (capitalists, big landowners, and the like). Workers are unable to make large savings and acquire shares; the small amounts that individual workers manage to save are mainly exhausted during periods of unemployment.

The American sociologist C. Wright Mills rightly noted in his *The Power Elite* that the idea of "diffusion of ownership" through the sale of shares was a "cultivated illusion" and that "at the very most 0.2 or 0.3 per cent of the adult population own the bulk, the pay off shares, of the corporate world".[1]

The dispersion of shares among small and medium shareholders, far from hindering the magnates of finance capital from taking over a joint-stock company, actually assists them to achieve their aims.

The big capitalists use stock-market speculation to increase their capital at the expense of small and medium shareholders.

"The 'democratisation' of the ownership of shares," Lenin wrote, "from which the bourgeois sophists and opportunist so-called 'Social-Democrats' expect (or say that they expect) the 'democratisation of capital', the strengthening of the role and significance of small-scale production, etc., is, in fact, one of the ways of increasing the power of the financial oligarchy."[2]

Instead of a "democratisation of capital" and "expansion of the numbers of owners", there has been in fact its centralisation in the hands of a tiny group of capitalists, who reap the fruits of the production, which is social in character.

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[1] C. Wright Mills, *The Power Elite*, New York, 1956, p. 122.

[2] V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 228.

The Myth of the "Managerial Revolution"

Bourgeois economists do their best to prove that capitalists have been deprived today of the right to control the economy, the functions of control having allegedly been transferred to the hands of hired managers, who are depicted as "people's proxy". In 1940, the American sociologist James Burnham published *The Managerial Revolution*, in which he wrote about a period of social transition to a type of society which will be called the managerial society. He talked of economic democracy and of the influence of "public opinion" on the behaviour of managers. J. K. Galbraith, professor at Harvard University (*The New Industrial State*), also takes such a position.

Bourgeois economists make wide use of the fact that capital as a function is distinct from capital as property, which Karl Marx had already noted. Under imperialism, with the joint-stock company or corporation as the main form of enterprise, the distinction between capital as property and its use has reached enormous dimensions.

In making use of this real phenomenon, bourgeois economists misrepresent its essence, proclaiming an expansion of the circle of owners when capital is in fact becoming more centralised. The apologists of imperialism depict functioning capitalists as "people's proxy".

In depicting joint-stock companies as belonging to the whole people, bourgeois ideologists substitute the question of the form of management for that of the form of ownership, thus ignoring the obvious fact that the *character of an enterprise is determined by the form of ownership, not by the form of management.*

Bourgeois economists confuse the issue of which class managers belong to. In fact, there is no specific class of managers. If one has the lower echelons of management in mind, i.e. those involved directly in the process of material production, these people belong to the intelligentsia and receive salaries. They do not make the company's policy decisions or participate in the distribution of profits, and so on. As for the senior managers, they are part of the big monopolistic bourgeoisie. It is, therefore, quite wrong to depict them as "people's proxy". And they only control the activities of a

company when they hold the controlling block of shares, i.e. when they are capitalists.

The idea of the "managerial revolution" does not, therefore, correspond to reality. The main aim of such theories is to mask the domination of the financial oligarchy and the growth of its profits. The managing directors of companies receive enormous incomes of hundreds of thousands of dollars a year. This is one of the ways in which profits reach the safes of monopolists. Bourgeois economists try to hide that by picturing the managers of companies as modest employees.

The Theory of Convergence

The essence of the theory of convergence is that, as capitalism and socialism develop, common features emerge and become more pronounced and the differences between them gradually disappear. The basis for this, in the view of bourgeois ideologists, is the fact that the conditions of production, culture, and science are becoming more and more alike in both systems as a result of progress.

Thus D. Snider, having in mind the economies of the USA and the USSR, writes: "Starting from opposite ideological poles they have been forced by the set of problems common to all modern industrial societies to devise solutions falling in between the extreme of the laisser-faire market and centralised authoritarianism."[1]

The theory of convergence takes a number of forms, with different interpretations of the basis for the development of similar features, and of the future of society. J. K. Galbraith, for example, in considering the future of industrial systems, points to an increasing trend toward convergence and suggests the development of technology as its basis. He sees this trend in the growth of large-scale production, the development of technology, the retention of autonomous enterprises, state regulation of aggregate demand, and the training of specialists, finding these features in both capitalist and socialist society. As a result he concludes:

[1] D. Snider, *Economic Myth and Reality*, Prentice Hall, 1965, p. 148.

"Thus convergence between the two ostensibly different industrial systems occurs at all fundamental points."[1]

François Perroux considers the basis of the growing similarity to be the fact that both systems employ plans and markets. A. Bergson puts state regulation of the economy in the forefront, claiming that "both systems are not quite so dissimilar" and that "the divergence between the two systems may narrow even more".[2]

The American sociologist Pitirim Sorokin considers that convergence between the two systems is taking place in all spheres: in the natural, technical and social sciences, law, education, art, religion, marriage and the family, economic system, social relations, and political system. In his opinion, the result of this mutual convergence of the USA and the USSR will be some sort of intermediate society, differing both from communism and from capitalism.

A characteristic feature of the theory is the claim that the two systems are interpenetrating each other, that capitalism is adopting the best features of socialism and, in so doing, overcoming its vices, while socialism is also gradually being regenerated, adopting the best of capitalism and eliminating its "defects". Bourgeois theoreticians, looking superficially at the economic reforms being carried out in socialist countries, see in them an increase in the use of commodity-money relations and suppose this a return to the market spontaneity.

In addition they talk repeatedly of the "regeneration" of capitalism, of its adoption of the principles of planning, of the "equalisation of incomes", of the "revolution in ownership", and so on.

The basic flaw of the convergence theory, like all theories of the "similarity" of the two systems, is that it is based on a formal approach and superficial features, and on disregard of the fundamental difference between social socialist ownership and private capitalist ownership. In actual fact, neither the development of technology nor the increasingly common features in the forms of organisation and management of production eliminate this fundamental difference, but rather

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[1] J. K. Galbraith, *The New Industrial State*, Boston, 1967, p. 391.
[2] A. Bergson, *The Economics of Soviet Planning*, New Haven and London, Yale University Press, 1964, p. 358.

make it more pronounced. For example, technical progress under capitalism leads to an increase in the productivity and intensity of labour, which together signify intensification of exploitation of the working class and of the contradictions of capitalism. Under socialism, this same technical progress serves as the basis for raising the standard of living of all the people, for lightening work and economising labour.

At the same time, the theory of convergence in a way reflects the fact that large-scale production social in character requires social regulation, which is impossible under capitalism; but bourgeois economists, of course, cannot draw such conclusions. The main aim of their convergence theory is to conceal the fundamental difference between the two systems and to prove that it is possible to preserve capitalism and adapt it to the new circumstances.

5. PRESENT-DAY REFORMIST AND REVISIONIST ECONOMIC THEORIES

Right-Wing Socialist and Labour Theories

One of the trends the struggle of bourgeois ideologists against the revolutionary theory of the working class and against Marxism-Leninism has taken is right-wing socialist and Labour theories. The ideological forerunners of present-day right-wing Socialists and Labourites, Eduard Bernstein, Karl Kautsky, Rudolf Hilferding, and Otto Bauer, led the struggle against Marxism from the standpoint of formal recognition of Marxism. They fought under the banner of renewing Marxism and proposed the idea of reconciliation and co-operation between the classes in bourgeois society. In place of the working class's revolutionary theory and tactics, they advocated opportunism, i.e. conciliation with the bourgeoisie and subordination of the class interests of the proletariat to those of the bourgeoisie.

After World War II, right-wing Socialists, as the direct disciples of nineteenth century revisionists, and Labour leaders openly proclaimed their theory the "antidote to Marxism". Their open renunciation of the theory of scientific socialism was intended to deprive the working class of a powerful

weapon in its struggle for social emancipation and to simplify subordination of the working class to bourgeois ideology, but they still continue to use socialist phrases for demagogic purposes and stick "socialist" labels on modern capitalism. They propagate the latest theories of the ideologists of monopoly capital in conjunction with the ramshackle dogmas of the Second International, and pool their efforts in order to whitewash contemporary capitalism, describing state–monopoly capitalism as "almost socialism". And they persistently spread bourgeois inventions about the "transformation of capitalism" as "democratic socialism".

The British Labour ideologist John Strachey, for example, claims that the economic laws of capitalism alter their nature under the influence of such institutions as the state, political parties and trade unions and that capitalism finally is being transformed into a "welfare state".[1] This theory revived old revisionist ideas of the "democratisation of capital" and bourgeois ideas of the "managerial revolution", the "second industrial revolution", and so on. The expression of the American economist Berle that "collectivisation of capital" was taking place in corporations and that the capitalist himself was "disappearing", was to the liking of British Labour leaders, and they made it the epigraph of their programme "Industry and Society". The Labour leaders claim that, since the functions of management have been taken over by professional managers, the people's proxy, there is no longer any need for nationalisation of industry.

The talk of right-wing Socialists and Labour leaders about the "transformation" of modern capitalism culminates in the conclusion that capitalism is gradually and spontaneously transforming into socialism.

They also advance a theory of "democratic socialism" in opposition to socialism in the USSR and other countries of the world socialist system, presenting themselves as representatives of the general democratic movement of all classes of bourgeois society. The frontiers of socialism, they claim, have expanded: socialism has ceased to be the concern of one class only, all classes of society, both workers and capitalists, being equally interested in going over to it. There

[1] See J. Strachey, *Contemporary Capitalism*, London, 1956.

are no fundamental differences between capitalism and socialism, they claim, and assert that the transition from capitalism to socialism is taking place gradually, without revolution.

In reality, the socialist revolution and the conquest of power by the proletariat are and always have been the necessary preconditions for the building of socialism. The socialist structure cannot develop within the womb of capitalism because of their completely different economic foundations. Capitalism is based on private ownership of the means of production and on exploitation of the working people. The basis of socialism is public ownership of the means of production and elimination of the exploitation of man by man. It is now plainly evident that, while the bourgeois state continues to exist, guarding private capitalist property, the socialist structure cannot develop.

In denying the necessity of socialist revolution and a transition period from capitalism to socialism, right-wing Socialists and Labour leaders are, in fact, rejecting the struggle for socialism and defending the interests of the bourgeoisie. They consider the economic basis of "democratic socialism" to be the so-called mixed economy, with a combination of state-capitalist enterprises (which they call socialist) and private enterprise. Preaching the common interests of workers and capitalists, reformists proclaim the disappearance of exploitation in capitalist society, and talk of "economic democracy", the essence of which is "freedom to buy and sell".

Considering Labour version of "democratic socialism", the British progressive economist John Eaton rightly noted that "democratic socialism" was nothing more than a socialist label stuck on contemporary capitalism. Indeed, "democratic socialism" means the retention of political power by the bourgeoisie and permanence of private capitalist ownership of the means of production. Freedom to buy and sell is, in fact, freedom for capitalists to exploit working people.

The Economic Theories of Right and "Left" Opportunists

The advances of socialism and intensification of the contradictions between the socialist and capitalist systems have resulted in right and "left" opportunists of all hues in Com-

munist and Workers' parties joining forces with the Social-Democrats and right-wing Labour leaders in attacking Marxist-Leninist teaching. In contrast to right-wing Socialists and Labourites, the opportunists in Communist and Workers' parties cover their evaluation of the laws governing the development of contemporary capitalism with the banner of Marxism. Some of them call openly for revision of Marxism; others, while in fact revising Marxism, rank themselves as its defenders. Right opportunists speak of the need to "renew" Marxism, because of the changes in the economics and politics of capitalism and also because of the experience of socialist construction. They do not usually propose any new economic theories, but essentially employ the fabrications of right-wing Socialists and Labourites as substitutes for Marxist-Leninist teaching. "Revisionism," as L. I. Brezhnev has said, "is a departure from proletarian class positions, a substitution for Marxism-Leninism of all sorts of bourgeois and petty-bourgeois concepts, old and modernistic."[1]

Striving to present the nature of contemporary capitalism in a light favourable to it revisionists snatch at the myth of the "welfare state". Right opportunists interpret state-monopoly capitalism as a growing of capitalism into socialism, identify it with socialism, and deny any need for the dictatorship of the proletariat in the transition to socialism.

Distorting the essence of modern capitalism, revisionists also conceal the deep crisis of bourgeois political economy. They have advanced a thesis of its break with positions of apology for capitalism and declare that modern bourgeois economists analyse the capitalist system scientifically and that Marx should be supplemented by Keynes. In reality, contemporary bourgeois economics, pursuing the goal of rescuing capitalism, which has outlived its day, limits itself to considering superficial phenomena, without penetrating to their core. An attempt to combine Marx and Keynes means, in fact, replacing Marxism by bourgeois theories.

Revisionist theories also found their way in certain socialist countries, where they mainly took the form of a denial of the general laws governing the building of socialism, an overemphasis on national peculiarities, and an underestimation

[1] L. I. Brezhnev, *Following Lenin's Course*, p. 179.

of the need for centralised planned economic management by the socialist state.

Along with right revisionism, "left" revisionism has also developed in certain Communist and Workers' parties. "Left" revisionist theories are part of the stock-in-trade of Maoism, forming an eclectic mixture, with other such views, of anarchism, Trotskyism, chauvinism, and nationalism.

One of the most important ideological and theoretical bases of "left" revisionism is dogmatism. The essence of this is that arguments, correct in their time, put forward by the founders of Marxism-Leninism, are mechanically carried over into contemporary conditions, which completely ignores the Marxist principle of historicism, that is to say, consideration of all the factors against the background of concrete historical reality, in their interconnection. Dogmatism is reflected not only in a special devotion to old formulae, but also in an inability to accept new truths and new propositions.

The dogmatism of "left" opportunists is seen most clearly in their evaluations of the character of the contemporary epoch. Lenin described the period of human history from the beginning of this century to the October Revolution as the epoch of imperialism, wars and proletarian revolutions. Imperialism was the main force of the time. The position has, however, altered fundamentally with the formation and consolidation of the world socialist system. The contradiction between capitalism and socialism is basic because it determines the main trends in the advance of society and exerts a decisive influence on all the other contradictions of the capitalist world.

Ignoring the basic contradiction of the contemporary epoch, Maoists put forward the concept of an "intermediate" zone, lying between the USA and the socialist countries, as the "main centre of revolutionary storms". This zone includes all imperialist countries (except the USA), new independent states, and what remained of the colonial empires. At the Tenth Congress of the Communist Party of China the national liberation movement was once again counterposed to its firm allies—the USSR and socialist community.

Maoists avoid the question of the general crisis of capitalism and of its present stage, which is the scientific and theoretical basis for correct evaluation of the stra-

tegy and tactics of the contemporary revolutionary movement. As Lenin wrote: "Only on that basis, i.e. by taking into account, in the first place, the fundamental distinctive features of the various 'epochs' (and not single episodes in the history of individual countries), can we correctly evolve our tactics; only a knowledge of the basic features of a given epoch can serve as the foundation for an understanding of the specific features of one country or another."[1]

By representing the national liberation movement as supposedly the decisive force of modern times, Maoists cannot give a scientific analysis of the present stage and of this movement either, as they ignore the significance of the first stage of the collapse of the colonial system of imperialism, the achievement of state independence by the peoples of former colonies. Referring to the fact that the imperialists still occupy strong positions in many of these countries, Maoists call the people to armed struggle without taking into account either the concrete historical circumstances or the balance of class forces.

The Marxist-Leninist position is that the first stage of the national liberation movement has, in the main, been completed and that a transition is under way to a second stage, to a struggle for economic independence and a strengthening of political independence on this basis, a stage in which the tasks, forms and goals of this struggle will be altered. The introduction of progressive social and economic measures is becoming the basic link in the struggle against neocolonialism. It has become possible, too, to make use of state power for anti-imperialist ends. The diversity of social and economic conditions, the differences in levels of development of the various countries, and the different forms of colonialism all call for concrete programmes of national liberation. Maoists ignore all these vitally important considerations. They also avoid the question of the possibility of non-capitalist development of newly-free countries. By denying the significance of the experience and assistance of socialist countries to new national states, they, in fact, reject such a possibility. Maoists have put forward the slogan "rely on your own strength" for achieving independence. Each country must primarily,

[1] V. I. Lenin, "Under a False Flag", *Collected Works*, Vol. 21, p. 145.

of course, make full use of its own resources and opportunities, but the Maoist slogan means mainly rejection of cooperation with socialist countries and of study and application of the experience of the USSR and other socialist countries. It means, in fact, that new sovereign states would remain dependent on imperialism since, without the help of socialist countries, they cannot overcome their economic backwardness or acquire genuine political independence.

"Left" adventurists only recognise the significance of one form of the struggle against the bourgeoisie, armed uprising, and see the unleashing of world war as the sole way to victory of the world revolution, underestimating the full danger of nuclear war and the countless losses mankind would suffer.

The whole Maoist case is based on an incorrect evaluation of the contemporary epoch. It ignores the fact that socialism has already triumphed in a number of countries, and that this is not simply the epoch of imperialism but is also that of the victorious proletarian revolution and of the transition from capitalism to socialism. It is impossible to understand the development of the economy and struggle in capitalist countries correctly without taking account of the struggle between the two world socio-economic systems and of the fact that the world socialist system is becoming the decisive factor in the development of human society.

In denying the actual effect of the world socialist system on the course of events in the world today, and by splitting the anti-imperialist forces, the Maoist group weakens the front against imperialism. Anti-Sovietism and anti-communism are characteristic features of Maoism; falsifying the facts, Maoists slander the Soviet Union and other socialist countries and come out against detente. It is now "far too little to say that the Maoist ideology and policy are incompatible with the Marxist-Leninist teaching," L. I. Brezhnev said at the 25th Congress of the CPSU. "They are directly hostile to it."[1]

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[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 14.

Present-day "ultra-revolutionaries" thus cover their degeneration with leftist phrases. In 1920, Lenin showed in his book *"Left-Wing" Communism—an Infantile Disorder* that certain Marxist dogmatists, lost in the past, were unable to see and understand new phenomena in the life of society and so sank into the mire of opportunism. The same thing has happened with present-day dogmatists in general and with Maoists, in particular.

Speaking at the 25th Congress of the CPSU, Gus Hall, General Secretary of the Communist Party of the USA, said that Maoism was a classic example of where the path of opportunism led when it was not rejected; at the bottom of the murky swamp lay counter-revolution, and Maoism had hit the bottom.

The Report of the Central Committee of the CPSU to the 24th Party Congress said: "Our Party has carried on and will continue to carry on an implacable struggle against any attitudes which tend to subordinate the working-class movement to the interests of monopoly capital, and to undermine the cause of the working people's struggle for peace, democracy and socialism."[1] Developing this idea at the 25th Congress, L. I. Brezhnev stressed that the struggle against right and "left" revisionism, "for the Marxist-Leninist principles of the communist movement and against attempts to distort or undermine them is still the common task of all".[2]

The struggle against right and "left" revisionism and against nationalism is a pressing problem for Marxist-Leninist parties. An important factor in this struggle is the further development of revolutionary theory, research into the new phenomena of contemporary capitalism, and into the ways world socialism affects the processes taking place in the non-socialist part of the world.

Marxism-Leninism is by nature creative. It develops and becomes richer on the basis of new experience of the class struggle of the proletariat of capitalist countries and of the building of socialism. The most important propositions

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[1] *24th Congress of the CPSU*, p. 28.

[2] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 37.

worked out by the International Meetings of Communist and Workers' Parties and the recent congresses of the CPSU, opposed by "ultra-leftist" phrasemongers, in fact, represent a thorough, Marxist-Leninist analysis of the contemporary epoch, which correctly reflects the conditions and prospects of the world revolutionary movement.

CONCLUSION

More than a hundred years ago, Marx and Engels scientifically demonstrated, on the basis of deep study of capitalist production relations, that the end of the bourgeois system and its revolutionary replacement by a principally new social system–communism–were inevitable. Half a century later Lenin, creatively developing Marxism, showed that the capitalist mode of production had come to its decline and entered its highest and last, monopoly stage of development, and that mankind stood on the threshold of a new epoch, that of the world proletarian revolution.

The victory of the Great October Socialist Revolution fully confirmed the teaching of Marxism-Leninism on the inevitable collapse of capitalism and the victory of socialism. In spite of the numerous difficulties and obstacles, socialism held out in fiercest struggle and became a mighty world system that today determines the main direction of the historical development of all human society. *"Imperialism can neither regain its lost historical initiative nor reverse world development,"* the 1969 world forum of Communist and Workers' parties stated. *"The main direction of mankind's development is determined by the world socialist system, the international working class, all revolutionary forces."*[1]

Between the two world systems that now coexist, the socialist and the capitalist, there is constant competition, in which the socialist system is showing its incomparable

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[1] *International Meeting of Communist and Workers' Parties, Moscow 1969*, p. 13.

superiority in every sphere, in economics, politics, ideology, and culture. The contradiction between them is the basic contradiction of our epoch of transition from capitalism to socialism.

The increasing strength of the position of socialism in the world, and the successes of the Soviet Union and other socialist countries in economic and cultural construction, are having a tremendous influence on capitalism, aggravating all its antagonistic contradictions.

The scientific and technical revolution that began in developed countries in recent decades has sharply accelerated the socialisation of capitalist production, but capitalist ownership of the means of production and the monopolies stand in the way of this progressive process.

In striving to make this contradiction less acute, contemporary capitalism is increasingly resorting to state regulation of the economy and to take-over of certain, very important sectors of the economy. But since that involves increase in the power of monopolies through subordination of the state machinery to them, state-monopoly capitalism is everywhere becoming a gigantic mechanism for redistributing the national wealth in favour of a handful of the biggest financial magnates. The basic contradiction of capitalism and the ways in which it is manifested are therefore being aggravated to the extreme rather than eliminated or reduced.

The antagonisms between capitalist production and consumption, between labour and capital, and between the monopoly bourgeoisie and all other strata of society are becoming more pronounced; but the working class of developed capitalist countries, relying on the gains of the world socialist system, through persistent struggle, has achieved certain improvements in recent years in its position, in particular wage increases, and has forced the monopoly bourgeoisie to make concessions and more often to resort to social manoeuvring. The increase in the productivity and intensity of labour, however, unemployment and the rapid rise in the prices of essentials greatly exceed the wage increases, so that the degree of exploitation of wage labour by capital, and the profits of the monopolies continue to grow at an unprecedented rate.

The collapse of the colonial system of imperialism has by

no means eliminated the irreconcilable contradictions between imperialist and developing countries. While the latter remain within the capitalist world economic system, they are and will continue to be exploited by the imperialists. Only all-round co-operation with socialist countries and a relentless fight against the domination of foreign monopolies can help the new national states to gain economic independence. The sharpening of inter-imperialist contradictions is manifested with particular force in the present crisis in the monetary system and in world capitalist trade.

As the general crisis of capitalism develops, the parasitism and decay of bourgeois society become more pronounced, as does the aggressive, predatory nature of imperialism. No other social system, in departing from the historical scene, has inflicted such losses and destruction on mankind as capitalism which has outlived its day—two world wars and the loss of tens of millions of lives, the destruction of created wealth, colossal expenditure on the arms race, losses through crises, unemployment, and so on. The final document of the Conference of the Communist and Workers' Parties of Europe in Berlin noted that mounting arms expenditure is imposing a heavier and heavier burden on the toiling masses of people. If these huge sums were used to improve the peoples' standard of living, to overcome economic backwardness, to give help and support to developing countries, and to protect the environment, it would vastly further the progress of humanity.

The aggravation of the external and internal contradictions of capitalism during its general crisis is seen in the rapid growth of the world revolutionary movement, whose development is leading ultimately and inevitably to the triumph of communism throughout the world.

In its present stage the revolutionary movement is characterised by a merging of its powerful driving forces, like the world socialist system, the working-class and democratic movement of developed capitalist countries, and the national liberation movement, into a single world revolutionary process directed against imperialism.

In our day, as Lenin brilliantly foresaw, socialism has become the most influential social force in historical development, and an immense catalyst of social progress.

The world socialist system is inseparable from the international working class, and is the latter's greatest achievement in its struggle to establish a new social system.

As the community of socialist nations gains in strength, its role in the revolutionary transformation of the world is constantly growing. The working class and other working people in socialist countries are successfully implementing the ultimate and highest aim of the socialist revolution, building the new society, taking the course which the working people of all other countries will follow in the future. This historic fact objectively makes the peoples of the socialist system the vanguard of the world struggle for socialism.

In defending the future of all mankind, the socialist countries are waging an active struggle for peace and consistently implementing the principle of peaceful coexistence of states with different social systems. The enormous economic and military strength of the socialist countries, and their authority and influence in the international arena stand on guard of peace, which has made the socialist system the centre of cohesion of all progressive and peaceful forces.

"It would be hard to exaggerate the role played by the socialist forces, the socialist community, in the positive changes now under way," General Secretary of the CPSU Central Committee L. I. Brezhnev said, characterising the present turn in international relations from cold war to detente and strengthening of security at the World Congress of Peace Forces in Moscow in 1973. "The Soviet Union is working for a better and more solid peace together with the other countries of the socialist community, its good friends and associates."[1]

The world socialist system acts as a powerful guarantor against imperialist export of counter-revolution; and that, in turn, significantly undermines the strength of internal counter-revolution in countries taking a course of socialist reforms. Socialist countries, above all the Soviet Union, are extending great economic, technical, and cultural assistance to the peoples of developing countries, helping them to overcome imperialist economic blockade, fundamentally to recon-

[1] L. I. Brezhnev. *For a Just, Democratic Peace, for the Security of Nations and International Co-operation*, Moscow, 1973, p. 12.

struct their economies and make them independent of foreign monopolies.

All this characterises the socialist system as the most powerful revolutionary force of modern times and the decisive factor in the world revolutionary process.

The second great force in this process is the international working-class movement. The world socialist system inspires the proletariat and makes the conditions of its struggle against capitalism much more favourable, but it cannot export revolution to any country. The idea of the export of revolution is a malicious slander against Marxism-Leninism. The success of the revolutionary struggle depends on the balance of class forces in each individual country, and on the ability of the working class to rally the broad masses of the people around itself.

Other social sections are rallying more and more around the working class and coming out in opposition to monopoly oppression. A broad anti-monopoly front is being formed which furthers consolidation of the unity of the masses and development of their struggle for socialism. And leading the struggle of the working people are the Communist and Workers' parties, which are steadily becoming the most influential and nation-wide political force in all countries.

The third major force of the world revolutionary process is the national liberation movement of peoples fighting against colonialism and neocolonialism. Many of them with the support of the world socialist system are gradually overcoming the difficulties they inherited from colonial oppression, are developing their national economies, limiting the activities of foreign monopolies, and pursuing an independent foreign policy. New national states developing along non-capitalist lines have adopted a course directed in the long run at building a socialist society. Successes of the national liberation movement are inseparably bound up with those of the world socialist system and the international working class. "...This is an epoch of radical social change," L. I. Brezhnev said at the 25th Congress of the CPSU. "Socialism's positions are expanding and growing stronger. The victories of the national liberation movement are opening up new horizons for countries that have won independence. The class struggle of the working people against monopoly oppression, against the

exploiting order, is gaining in intensity. The scale of the revolutionary-democratic, anti-imperialist movement is steadily growing. Taken as a whole, this signifies development of the world revolutionary process."[1] The firmer and more indestructible the unity of these great revolutionary forces, the sooner the decaying capitalist system will be cast into the limbo of history and the banner of communism raised over the whole world.

[1] L. I. Brezhnev, *Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Policy. 25th Congress of the CPSU*, p. 32.